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Latin American Caribbean Tax Assessment: Desk Studies

Colombia, Dominican Republic, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Paraguay, and Peru

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Summary Report

High-level Desk Reviews of 10 LAC Region Tax Systems

Colombia, Dominican Republic, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Paraguay, and Peru

Summary

This document provides a high-level profile of the structure and the performance of 10 tax systems in the Latin America and Caribbean (LAC) region. Specifically, it examines: tax system revenue effort, tax structure, and revenue performance based on a series of quantitative and qualitative indicators, and compares each country with other countries in the LAC region, their income group, and the rest of the world. The analysis draws largely on a benchmarking of the tax structure and revenue performance of three major taxes: corporate income tax (CIT), personal income tax (PIT), and the Value Added Tax (VAT). All structure and performance benchmarking data are from Fiscal Year (FY) 2008-09 from USAID's Collecting Taxes Database, the last year of comparable data. However, the analysis draws on more current resources to provide a description of the evolution of tax revenues over the 2001 to 2010 period. Below are summary points, and the country-specific studies contain more detail.

- Over the 2001 to 2010 period, all ten countries under review undertook, to greater or lesser extent, tax policy or tax administration reforms. During this period, there was a shift away from international trade taxes to increased reliance on income tax revenue, reflecting in part the coming into force of regional trade agreements for a number of countries under review.
  - Revenue effort from total taxes increased in half the countries.
  - Income tax revenue effort increased in eight countries.
  - Sales tax effort increased in half of the countries.
  - Revenue from international trade taxes declined in 9 countries and increased negligibly in one country.
- The "overall tax effort"—the ratio of tax collections to a country's estimated maximum revenue capacity given its economic, social, institutional and demographic characteristics is:
  - Below the comparator group average for 5 countries (Colombia, Dominican Republic, El Salvador, Guatemala and Peru);
  - At the comparator group average for 3 countries (Honduras, Nicaragua, and Paraguay);
  - Above comparator group average for Jamaica; and
  - Not available for Mexico. [1]

[1] See Revenue Mobilization in Developing Countries, SM//11/21 (International Monetary Fund, 2011, pp.60-63).

Country Summaries

The discussion below provides a high-level sketch of the reform efforts of the 10 countries over the 2001 to 2010 period and suggests some potential areas for revenue mobilization.

- Colombia provides an example of a country that has undertaken several tax policy and administration reforms to simplify the tax system and improve tax administration. However, tax revenue in Colombia declined by 0.9 percent of GDP over the 2001 to 2010 period as revenue from all major tax handles declined.
    - Improving the revenue productivity of Colombia's VAT in line with its income group average could contribute an additional 2.1 percent of GDP in revenue.
- The Dominican Republic provides an example of a country that undertook a number of reforms over the recent decade to respond to internal and external developments. Revenue mobilization remains weak by regional and income group standards. Revenue declined by 0.7 percent of GDP as taxes on income and international trade declined by more than increases in domestic taxes on consumption.
    - Improving corporate taxation through base broadening and administration reforms could contribute an additional 1.7 percent of GDP in revenue.
    - Improving income tax revenue productivity to the regional average could contribute an additional 0.5 percent of GDP of revenue.
    - Improving VAT revenue productivity to the regional average could mobilize 2.5 percent of GDP in revenue.
- El Salvador provides an example of a country that has significantly improved revenue mobilization over the course of the last decade through sustained efforts to strengthen tax administration and simplify the tax system. As a result, El Salvador increased tax revenue by 3.3 percent of GDP over the last decade—improvements in income and sales tax revenue more than offset declines in international trade tax revenue over this period.
    - If El Salvador could raise the productivity of its corporate income tax to the prevailing average in the region or income group, this would increase tax revenues by an additional 1.3 percent of GDP.
- Guatemala provides an example of a country that has had a stagnant level of revenue mobilization over the course of the last decade despite efforts to strengthen tax administration and implement tax reform. Over the 2001 to 2010 period, revenue declined by a modest 0.4 percent of GDP as the government reduced reliance on international trade and sales taxes and increased reliance on income taxes.
    - Continued focus on improving corporate taxation to the prevailing average in the region could contribute an additional 2.2 percent of GDP in revenue.
    - Improving the revenue productivity of personal income taxes to the regional average could contribute an additional 1.8 percent of GDP in revenue.
- Honduras provides an example of a country that has undertaken modest tax policy and administration reforms to maintain a given level of revenue. Over the last decade, revenue declined by 1.4 percent, reflecting policy decisions to reduce sales taxes and international trade taxes which were partially offset by increases in income taxes.
    - Improving the revenue productivity for personal income taxes in line with the income group average could contribute an additional 1.0 percent of GDP in revenue.
- Jamaica provides an example of a country that has an exceptionally high revenue productivity given its economic, social, institutional, and demographic characteristics. Jamaica increased tax

revenue by 2.1 percent of GDP, over the 2001 to 2010 period, primarily through improved yields from income taxes.

  - If personal income tax productivity were at the level of the low-income group average, Jamaica would yield an additional 0.75 percent of GDP of revenue.

- Mexico provides an example of a country that is facing medium-term deterioration in its structural revenue position due to the expected decline in oil production and has undertaken modest steps to stabilize its non-oil revenues through improved tax administration and tax rate increases. Modest increases in income tax revenue were more than offset by declines in international trade taxes and sales taxes over the past decade.
  - If Mexico could raise the productivity of its corporate income tax to the prevailing average in the region or income group through base broadening and improved tax administration, this would increase tax revenues by an additional 3.5 percent of GDP.
  - If Mexico could raise the productivity of its VAT to the prevailing average in the region or income group through the removal of exemptions and special privileges and improved tax administration, this would increase tax revenues by an additional 3.0 percent of GDP.
- Nicaragua provides an example of a country that has improved revenue mobilization over the course of the last decade through sustained efforts to strengthen tax administration and implement tax reform, particularly for personal and corporate income taxes. Nicaragua increased revenue by 5.6 percent of GDP as income and sales tax revenues increased significantly over the 2001 to 2010 period.
  - Increasing PIT revenue productivity to the regional average could increase tax revenues by an additional 2.5 percent of GDP.
- Paraguay is an example of a country that has significantly reformed its revenue policy and administration over the last decade by reducing the number of taxes, implementing a low uniform statutory rate of 10 percent for PIT, CIT, and VAT, and strengthening the tax administration. Over the last decade, Paraguay increased revenue by 2.7 percent of GDP, primarily through increasing the revenue yield from sales taxes.
  - Paraguay's tax structure relies more heavily on indirect taxation than income taxes when compared to regional, income group, and world standards.
  - While CIT, PIT, and VAT statutory rates are all below comparative averages, revenue productivity for CIT and VAT are among the highest in South America.
- Peru entered the millennium after a decade of comprehensive tax policy and administration reforms. Its efforts have been outstanding by Latin American standards and have paved the way for successful improvements in revenue mobilization over the last decade ,with an increase in tax revenue of 2.6 percent of GDP. Increases in income and sales tax revenue were partially offset by declines in international trade tax revenue.
  - Improving the revenue productivity for personal income taxes could contribute an additional 0.3 percent of GDP of revenue

Tax System Profile (2008-09)

The attached tables provide a high-level profile of the tax systems for the 10-country study as of fiscal year 2008/09 in addition to the Latin America and Caribbean Region (LAC), other low-middle-income countries, and the rest of the world averages. The data in this section is from USAID's Collecting Taxes database. The most recent year for comparative data is the 2008/09 fiscal year. Country specific data and reforms through 2010 are referenced in the previous sections.

Revenue Effort

- "Revenue Effort" provides a measure of the amount of revenue from income and sales taxes that a government collects as a share of GDP.
- On average, the overall tax revenue effort in the 10 countries is 14.87 percent of GDP - about 5 percentage points below that of regional and income group comparator countries.
  - ***Jamaica has the highest overall tax revenue effort at 24.3 percent. Mexico ranks lowest with 9.6 percent of GDP.***
- Average corporate income tax revenue effort stands at 3.2 percent of GDP, which is in line with the income group and world averages, though slightly below the LAC regional average of 3.9 percent.
  - ***Jamaica shows the highest corporate tax revenue effort at 9.6 percent of GDP. The Dominican Republic ranks lowest with 1.7 percent of GDP.***
- Average personal income tax revenue effort stands at 1.8 percent of GDP, which is below the regional, income group, and world averages in the 2.1 – 3.4 percent range.
  - ***Mexico has the highest personal income tax revenue effort at 4.5 percent of GDP. Guatemala ranks lowest with 0.3 percent of GDP.***
- Average revenue effort from VAT is 6.2 percent, which is in line with regional and world averages and slightly below the income group average of 7.27 percent.
  - ***Peru shows the highest VAT revenue effort at 8.5 percent of GDP. Mexico ranks lowest with 3.4 percent of GDP.***

Tax Structure

- At 27 percent on average, corporate income tax rates in the 10 countries are slightly above the income group and world averages and slightly under the LAC regional average of 28.7 percent.
  - ***Jamaica has the highest CIT rate at 33.3 percent. Paraguay's CIT rate ranks lowest at 10 percent.***
- At 13 percent on average, personal income tax rates are above the income group and world averages and broadly in line with the LAC regional average of13.5 percent.
  - ***Jamaica shows the highest PIT rate at 25 percent. Mexico's PIT rate ranks lowest at 3 percent.***
- At 14.5 percent on average, VAT rates are in line with the LAC regional average of 14.4 percent, but below the income group and world averages.
  - ***Peru has the highest VAT rate at 19 percent. Paraguay's VAT rate ranks lowest at 10 percent.***
- The average tax wedge on labor income is 20.1 percent, which is broadly in line with the income group and world average, and is slightly below the regional average of 18.2 percent.
  - ***Colombia shows the highest tax wedge with a rate of 44.6 percent. Mexico's tax wedge ranks lowest at 11.1 percent.***

Revenue Productivity

- "Revenue productivity" is measured as the portion of GDP that is mobilized for each point of tax rate.
- The average corporate income tax productivity in the 10 countries is 0.13 percent of GDP, which is broadly in line with the regional, income group, and world averages, at 0.14 percent.
  - ***Jamaica has the highest corporate income tax productivity at 0.29 percent. Mexico ranks lowest at 0.01 percent.***

- The average personal income tax productivity is 0.07 percent of GDP, which is equal to the LAC regional average, and moderately below the income group and world averages in the 0.11 – 0.13 percent range.
    - ***Mexico shows the highest personal income tax productivity at 0.17 percent. Guatemala ranks lowest at 0.01 percent.***
- The average VAT productivity is 0.41 percent of GDP, which is in line with the regional, income group, and world averages.
    - ***Paraguay shows the highest VAT productivity, at 0.57 percent. The Dominican Republic ranks lowest at 0.29 percent.***

Tax Administration Structure and Efficiency

- On average, all countries studied organize their tax administration along functional lines[2] and segment their taxpayers into regional departments, including a Large Taxpayer Unit (LTU).

Taxpayer Burden and Corruption Evidence

- On average, enterprise surveys by World Bank indicate that the percentage of business taxpayers "expected to give gifts in meeting with tax officials" is 6.98 percent for the 10-country study, which is in line with the LAC regional average of 6.23 percent and well below the world average of 16.63 percent.
    - ***Evidence of corruption is highest in the Dominican Republic, at 17.33 percent of business taxpayers, and lowest in Colombia, at 1.54 percent.***

- On average, the World Bank Doing Business survey estimates that the average time required for Paying Taxes by a medium-sized company in amounted to 314 hours per year in early 2011 for the 10-country study – which is slightly below the average of 385 hours for other LAC region countries..
    - ***Taxpayer burden is highest in Jamaica, averaging 414 hours, and lowest in Colombia, averaging 193 hours.***

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[2] Tax administrations are generally organized by type of tax or by function. Tax-type organizations may have a VAT Dept., a Sales Tax Dept., a Personal Income Tax Dept., and a Corporate Income Tax Dept. Tax administrations organized along functional lines, however, will have units responsible for registration, tax payer services, return and payment processing, collections, audit, and objections and appeals in addition to support units responsible for Human Resources, Information Technology, Corporate Planning, Budgeting, Performance Monitoring and Evaluation and Internal Audit. All or most domestic taxes will be administered within these functional units.

ANNEX 1: Revenue Structure and Performance Measures

	Evolution of Tax Revenue 2/						Revenue Effort				Tax Structure				Revenue Productivity			Combined Administration			
Country 1/	Overall Evolution	Income Taxes	Taxes on Goods & Services	Int'l Trade Taxes	Other Taxes	Overall Tax Effort 3/	Taxes	CITY	PITY	VATY	CITR	PITR	Wedge	VATR	CIT-PROD	PIT-PROD	VAT-PROD	Function	LTU	Corruption Evidence 4/	Taxpayer Burden 5/
Colombia	(0.9)	(0.4)	(0.4)	(0.3)	0.30	71.6	12.2	N/A	3.8	5.1	33.0	19.0	44.6	16.0	N/A	0.13	0.32	1	1	1.54	193.0
Dominican Republic	(0.7)	(0.3)	2.6	(3.3)	N/A	48.3	15.0	1.7	1.0	4.7	25.0	15.0	19.5	16.0	0.07	0.05	0.29	1	1	17.33	324.0
El Salvador	3.3	2.1	1.5	(0.4)	N/A	53.8	14.0	2.3	2.4	7.3	25.0	10.0	20.9	13.0	0.09	0.09	0.56	1	1	2.62	320.0
Guatemala	(0.4)	0.3	(0.3)	(0.6)	N/A	38.1	11.5	2.1	0.3	6.1	31.0	15.0	13.5	12.0	0.07	0.01	0.51	1	1	3.93	344.0
Honduras	(1.4)	1.4	(3.0)	(0.6)	N/A	64.6	15.6	3.3	1.6	6.1	25.0	10.0	10.5	12.0	0.13	0.07	0.51	1	1	2.76	224.0
Jamaica	2.1	1.0	(0.3)	0.1	N/A	95.0	24.3	9.6	1.3	7.6	33.3	25.0	17.0	16.5	0.29	0.05	0.46	1	1	4.88	414.0
Mexico	(0.9)	0.6	(1.2)	(0.3)	N/A	N/A	9.6	0.4	4.5	3.4	28.0	3.0	11.1	15.0	0.01	0.17	0.23	1	1	9.59	404.0
Nicaragua	5.6	3.7	3.3	(0.5)	N/A	65.2	18.0	N/A	0.6	7.4	30.0	10.0	21.5	15.0	N/A	0.02	0.23	1	1	4.20	222.0
Paraguay	2.7	0.8	2.4	(0.1)	(0.30)	64.5	13.5	2.0	N/A	5.7	10.0	8.0	23.0	10.0	0.20	N/A	0.57	1	1	14.60	387.0
Peru	2.6	2.9	1.1	(1.1)	(0.20)	55.3	15.0	4.0	1.1	8.5	30.0	15.0	19.6	19.0	0.14	0.04	0.45	1	1	8.42	309.0
Average	**1.20**	**1.21**	**0.57**	**(0.71)**	**(0.07)**	**61.82**	**14.87**	**3.18**	**1.84**	**6.19**	**27.03**	**13.00**	**20.12**	**14.45**	**0.13**	**0.07**	**0.41**	**1.00**	**1.00**	**6.99**	**314.10**
Low-Middle Income Countries	-	-	-	-	-	63.2	19.5	3.42	2.48	7.27	24.68	11.35	19.98	15.06	0.14	0.11	0.47	0.93	0.88	-	-
Upper-Middle Income Countries 6/	-	-	-	-	-	77.2	20.3	3.44	3.37	6.81	23.69	12.61	25.25	16.28	0.14	0.15	0.44	0.89	0.85	-	-
LAC Region	-	-	-	-	-	-	20.3	3.86	2.1	6.35	28.69	13.49	18.12	14.4	0.14	0.07	0.45	0.82	0.81	6.23	385
World	-	-	-	-	-	-	19.8	3.33	3.36	6.33	25.32	11.69	20.61	15.67	0.14	0.13	0.41	0.89	0.85	16.63	186 *

Notes:

1) All data is from the USAID Collecting Taxes Database except for "Evolution of Tax Revenue", "Overall Tax Effort", "Corruption Evidence" and "Taxpayer Burden"

2) Change in the level of revenue as a percentage of GDP from 2001 to 2010. Source: National authorities and IMF.

3) Source: Revenue Mobilization in Developing Countries, SM/11/21 (International Monetray Fund, 2011, pp. 60-63)

4) Source: World Bank Enterprise Surveys

5) Source: World Bank Doing Business Report

6) Mexico for all indicators except Overall Tax Effort. IMF study classifies Peru, DR and Jamaica as High-Middle-Income Countries for Overall Tax Effort.

*) OECD Average

Footnotes:

1. LAC countries include: Anguilla, Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay and Venezuela.
2. Low-Middle-Income Countries include: Colombia, ***Dominican Republic***, Ecuador, Egypt, Arab Rep., ***El Salvador***, Fiji, Georgia, ***Guatemala***, Guyana, ***Honduras***, Indonesia, Iran, Islamic Rep., Iraq, ***Jamaica***, Jordan, Kiribati, Kosovo, Lesotho, Macedonia, FYR, Maldives, Marshall Islands, Micronesia, Moldova, Morocco, Namibia, ***Nicaragua***, ***Paraguay***, ***Peru***, Philippines, Samoa (Western), Sri Lanka, Suriname, Swaziland, Syrian Arab Republic, Thailand, Tonga, Tunisia, Turkmenistan, Ukraine and Vanuatu.
3. Upper-Middle-Income Countries include: Anguilla, Argentina, Belize, Botswana, Brazil, Bulgaria, Chile, Cook Islands, Costa Rica, Croatia, Dominica, Equatorial Guinea, Gabon, Grenada, Hungary, Kazakhstan, Latvia, Lebanon, Libya, Lithuania, Malaysia, Mauritius, ***Mexico***, Montenegro, Oman, Palau, Panama, Poland, Romania, Russian Federation, Serbia, Seychelles, Slovak Republic, South Africa, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Turkey, Uruguay and Venezuela

Colombia

Summary and Conclusion

- Colombia provides an example of a country that has undertaken several tax policy and administration reforms to simplify the tax system and improve the tax administration.
- Colombia's tax revenue declined by 0.9 percent of GDP over the 2001 to 2010 period.
- However, Colombia's level of revenue mobilization is well below its capacity given its economic, social, institutional and demographic characteristics.
- Recent comparative data suggests that Colombia's revenue effort from VAT is slightly below that of regional and income group comparator countries.
- Conversely, the VAT rate for Colombia is slightly above the comparator group countries on average.
- Income tax revenue effort is in line with world averages and slightly above that of regional and income group comparator countries on average.
- Colombia's corporate and personal income tax rates are above the world, regional and income group average rates.
- VAT productivity is slightly below comparator group averages, and income tax productivity measures are in line or slightly above that of comparator country measures.
- Given data limitations, there is little information on the performance of corporate taxes. Nevertheless, the rate structure of income taxes in Colombia is consistent with regional comparator countries.

- An area for further investigation is:
  - An examination of the current tax regime with a focus on broadening the tax base including eliminating exemptions and reducing the number of VAT rates.

Major Developments and Features of Current Tax System

Evolution of Revenue

Over the period 2001 to 2010, Colombia's tax revenue declined by 0.9 percent of GDP as declines in taxes on goods and services and income and profits declined in the second half of the decade.

- Income tax revenue effort declined 0.4 percent of GDP over the period.
- Revenue effort from taxes on goods and services declined by 0.4 percent of GDP.
- Revenue effort from taxes on international trade decreased modestly by 0.3 percent of GDP.

Colombia Government Current Revenue
(% of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Taxes on Income & Profits	5.3%	5.3%	4.5%	6.1%	6.1%	5.5%	5.6%	5.1%	5.5%	4.9%
Taxes on Goods and Services	5.9%	5.8%	5.5%	6.2%	6.5%	5.9%	5.7%	5.9%	5.3%	5.5%
Taxes on International Trade	1.1%	1.0%	0.8%	0.9%	1.0%	0.9%	1.0%	0.9%	0.8%	0.8%
Other Taxes	0.7%	1.4%	1.3%	1.1%	1.2%	1.0%	1.2%	1.5%	1.1%	1.0%
Total Tax Revenue	**13.1%**	**13.4%**	**12.1%**	**14.2%**	**14.9%**	**13.4%**	**13.4%**	**13.4%**	**12.8%**	**12.2%**

Source: IMF Article IV Reports (2002, 2006, 2011)

Summary of Reforms

The Colombian tax system has a long history of regular reforms over the decades. Similar to other countries in the region, tax evasion is a serious problem, and it partially explains the ongoing tax reforms and high nominal tax rates. The reforms in the early 2000's helped raised tax revenues by standardizing the VAT rate at 16% and through a series of one-time taxes. Towards the middle of the decade, several changes were made to the corporate tax regime and taxes on investments. Most recently, the new administration has passed the 2011 Tax Reform Act enacting material changes to the current Colombian tax framework with respect to withholding taxes, penalties and deductions.

A summary of reforms undertaken to date include:

- Through the 1990's and into the new millennium, several reforms to VAT were made through exceptions on rentals, restaurants, bars, tobacco, and services. As a result, the VAT in Colombia has nearly 10 different rates leading to many exemptions and deductions that cut the base and productivity of the tax.
- Reforms in 2005/ 2006 adjusted the VAT rates to include: 0 percent on 38 basic goods, 5 percent on lotteries, 16 percent on goods and services, 20 percent on telecom services, and 25-35 percent on vehicles.
- In 2005, in an effort to facilitate payments and declarations and counteract evasion, the government implemented a new online platform, MUISCA, to verify taxes owed by comparing information with data from the financial sector and other government agencies. By 2008, it was estimated the new system reduced evasion by 25-30 percent.
- New laws in 2005 also introduced a Law of Legal Stability to Investors, which offers the opportunity to lock in tax terms for 3-20 years for certain investments. By 2010, the government signed 64 of these contracts, generating over $11bn and creating nearly 20,000 jobs.
- Major reforms in 2006 altered the nominal corporate income tax rates from 38.6 percent to 33 percent by 2008, applied to all businesses regardless of corporate structure or ownership.
- Reforms in 2010 eliminated VAT zero-rating on hydrocarbons and mining exports.
- Tax reforms in 2010 introduced several new taxes including a new 14 percent withholding tax on cross border financing, one-time wealth surcharge tax of 25 percent and the elimination of special transfer pricing on mining activities and other credits.

Tax System Profile (2008-09)

The attached tables provide a high-level profile of Colombia's tax system as of fiscal year 2008/09 and compare it with the Latin America and Caribbean Region (LAC), other low-middle-income countries, and the rest of the world. The data in this section is from USAID's Collecting Taxes database. The most recent year for comparative data is the 2008/09 fiscal year. Country specific data and reforms through 2010 are referenced in the previous sections.

Colombia's "overall tax effort"—the ratio of actual tax collections to its estimated maximum revenue capacity given its economic, social, institutional and demographic characteristics—is 71.6 percent, which is significantly below its comparator group average of 77.2 percent. [3]

Revenue Effort

- "Revenue Effort" provides a measure of the amount of revenue from income and sales taxes that a government collects as a share of GDP.
- Colombia's overall tax revenue effort is 12.2 percent of GDP - about 7 percentage points below that of regional and income group comparator countries.
- Colombia's revenue effort from personal income tax, at 3.8 percent, is above the LAC regional average and the income group averages, which are in the 2.1 to 2.5 percent range, and slightly above the world average of 3.36 percent.
- The revenue effort from VAT, at 5.1 percent, is slightly below the LAC regional and world averages, and moderately below that of the income group average of 7.27.
- Data is not available to calculate the revenue effort of corporate income tax revenue effort, CIT.

Tax Structure

- Colombia's corporate income tax rate, at 33 percent, is moderately above the income group world and LAC regional averages, which are in the 25 percent range.
- Similarly, the maximum PIT rate in Colombia, at 33 percent, is above the income group world and LAC regional averages, which are in the 25 to 30 percent range.
- The VAT rate, at 16 percent, is slightly above the regional, income group and world averages, which are in the 14.5 to 16 percent range.
- The tax wedge on labor income, at 44.6 percent, is double the figure of the regional, income group, and world averages of 19-20 percent.

Revenue Productivity

- "Revenue productivity" is measured as the portion of GDP that is mobilized for each point of tax rate.
- VAT productivity, at 0.32, is below the regional, income group and world averages. Similarly, the VAT gross compliance ratio is slightly below the comparator country averages.
  - ***Weak productivity of Colombia's VAT reflects in part the multiple rates of VAT for goods and services, below that of the standard rate.***
  - ***Improving the revenue productivity for VAT in line with the income group average could contribute an additional 2.1 percent of GDP in revenue.***
- Personal income tax productivity, at 0.13, is above the regional average of 0.07, and broadly in line with the income group and world averages, which are in the 0.11 to 0.13 range.
- Data is not available to calculate the revenue productivity of the corporate income tax, CIT.

Tax Administration Structure and Efficiency

- The Direccion de Impuestos y Aduanas Nationales (DIAN) is responsible for administration of all taxes in Colombia. In recent years, DIAN has been implementing a Single Model for Automated Revenues, Services, and Control (MUISCA) to support tax administration services.
- Tax administration in Colombia is organized along functional lines[4] and segmentation of taxpayers into regional departments, including a Large Tax Payer Unit (LTU).

[3] See Revenue Mobilization in Developing Countries, SM//11/21 (International Monetary Fund, 2011, pp.60-63).

Taxpayer Burden and Corruption Evidence

- Enterprise surveys by WB indicate that the percentage of Colombian business taxpayers "expected to give gifts in meeting with tax officials" is 1.54 percent, which is well below the LAC regional average of 6.23 percent and significantly below the world average of 16.63.

- The WB Doing Business survey estimates that the average time required for Paying Taxes by a medium-sized company in Colombia amounted to 193 hours per year in early 2011 – which is well below the average of 385 hours for other LAC region countries. Prior to 2008, this figure was 456 hours.

[4] Tax administrations are generally organized by type of tax or by function. Tax-type organizations may have a VAT Dept., a Sales Tax Dept., a Personal Income Tax Dept., and a Corporate Income Tax Dept. Tax administrations organized along functional lines, however, will have units responsible for registration, tax payer services, return and payment processing, collections, audit, and objections and appeals in addition to support units responsible for Human Resources, Information Technology, Corporate Planning, Budgeting, Performance Monitoring and Evaluation and Internal Audit. All or most domestic taxes will be administered within these functional units.

ANNEX 1: Colombia's Collecting Taxes Indicators

Total Tax Revenue	TAXY
	Tax Revenue as % of GDP
Colombia	12.2
Latin America and the Caribbean[1]	20.3
Low-Middle-Income Economies[2]	19.5
World	19.8

Company Income Tax	CITR	CITY	CITPROD
	Tax Rate	Revenue as % GDP	Revenue Productivity
Colombia	33.00	N/A	N/A
Latin America and the Caribbean[1]	28.69	3.86	0.14
Low-Middle-Income Economies[2]	24.68	3.42	0.14
World	25.32	3.33	0.14

Income Taxes on People	PITMINR	PITMINL	PITMAXR	PITMAXL
	Minimum Tax Rate	Minimum Income Level (Multiples of GDPpc)	Maximum Tax Rate	Maximum Income Level (Multiple of GDPpc)
Colombia	19.00	2.61	33.00	9.81
Latin America and the Caribbean[1]	13.49	1.81	29.22	8.53
Low-Middle-Income Economies[2]	11.35	1.28	26.76	10.36
World	11.69	0.86	29.63	9.78

Income Taxes on People	PITY	PITPROD	SSR	WEDGE
	Revenue as % GDP	Revenue Productivity	Mandatory Combined Social Contribution Rates	Combined Rate of Personal and Labors Taxation
Colombia	3.80	0.13	44.65	44.60
Latin America and the Caribbean[1]	2.10	0.07	16.74	18.12
Low-Middle-Income Economies[2]	2.48	0.11	16.87	19.98
World	3.36	0.13	16.16	20.61

Value Added Tax	VATR	VATY	VATGCR	VATPROD	THRESHOLD
	VAT rate	Revenue as % GDP	Gross Compliance Ratio	Revenue Productivity	Mandatory registration/ filing (annual turnover in USD)
Colombia	16.00	5.10	56.60	0.32	N/A
Latin America and the Caribbean[1]	14.40	6.35	66.05	0.45	24,218.24
Low-Middle-Income Economies[2]	14.90	7.27	68.53	0.47	41,954.80
World	15.67	6.33	63.11	0.41	40,552.18

Tax Administration	Tax Staff	Payer to Staff	Function	LTU	Customs
	Tax staff per 1000 population	Number of tax payers per tax staff	Functional Organization	Large Taxpayer Unit	Customs and Tax Administration Combined
Colombia	N/A	N/A	1.00	1.00	1.00
Latin America and the Caribbean[1]	0.44	389	0.82	0.81	0.31
Low-Middle-Income Economies[2]	0.48	260	0.93	0.88	0.31
World	0.76	437	0.89	0.85	0.29

Footnotes:

1. LAC countries include: Anguilla, Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay and Venezuela.
2. Low-Middle-Income Countries include: Dominican Republic, Ecuador, Egypt, Arab Rep., El Salvador, Fiji, Georgia, Guatemala, Guyana, Honduras, Indonesia, Iran, Islamic Rep., Iraq, Jamaica, Jordan, Kiribati, Kosovo, Lesotho, Macedonia, FYR, Maldives, Marshall Islands, Micronesia, Moldova, Morocco, Namibia, Nicaragua, Paraguay, Peru, Philippines, Samoa (Western), Sri Lanka, Suriname, Swaziland, Syrian Arab Republic, Thailand, Tonga, Tunisia, Turkmenistan, Ukraine and Vanuatu.

Colombia *Highlights*

Currency: Peso (COP)

Foreign exchange control: Foreign exchange that is to be used for foreign direct investment may enter the country without central bank registration. However, the exchange market in Colombia comprises authorised exchange intermediaries through which most foreign currency transactions by foreign investors must be transferred. Foreign capital investments, the import of goods, exports and currency used to repatriate profits must be directed through the exchange market. "Foreign residents" (a category distinct from foreign investors) in Colombia also must use the authorised exchange market for investments outside the country.

Accounting principles/financial statements: Colombian GAAP. Financial statements must be prepared annually. Colombia has accepted IFRS, with those standards expected to apply as from 2014.

Principal business entities: These are the joint stock corporation, limited liability company, partnership, simplified stock corporation and branch of a foreign company.

Corporate taxation:

Residence – A corporation is resident if it is organised under Colombian law or has its main domicile in Colombia.

Basis – Colombia taxes resident companies on worldwide income. Foreign companies and entities and branches of foreign companies are taxed only on their Colombia-source income.

Taxable income – Taxable income is defined as gross income less returns, rebates, discounts, all ordinary costs incurred in obtaining net income and all allowable deductions. Corporate taxpayers may deduct costs that are "necessary and proportionate to the activities performed" in computing taxable income.

Taxation of dividends – Dividends are taxed at the 33% corporate rate if the profits from which the dividends are paid were not subject to tax at the corporate level. Otherwise, the dividends are exempt.

Capital gains – Capital gains derived from the sale of assets held for 2 years or more are subject to capital gains tax. Otherwise, gains are treated as ordinary income.

Losses – Losses may be carried forward without limitation. No carryback is allowed.

Rate – 33%

Surtax – No

Alternative minimum tax – A presumptive minimum income is calculated annually at a rate of 3% on the taxpayer's net worth held in the year immediately preceding the taxable year. Certain assets, such as shares in Colombian companies, may be excluded from this calculation.

Foreign tax credit – A taxpayer may credit tax paid on foreign-source income, provided the foreign tax does not exceed the Colombian tax that would have been due on the same income received from abroad. For the credit to apply, the taxpayer must be a company resident in Colombia, its foreign income must be taxable in Colombia and the income tax paid abroad may not exceed the Colombian tax attributable to the income.

Participation exemption – See under "Taxation of dividends" for the treatment of domestic dividends. The participation exemption does not apply to foreign dividends; foreign dividends distributed or credited to a Colombian resident company are includible its taxable income.

Holding company regime – No

Incentives – Incentives include a special free trade zone regime with a corporate income tax rate of 15%; a 40% tax deduction for investment in fixed assets; the availability of legal stability agreements; and deductions for environmental and scientific investment.

Withholding tax:

Dividends –Dividends paid to a foreign company or entity not domiciled in Colombia may be remitted abroad free of tax if the profits from which the dividends are paid have been taxed at the corporate level. Otherwise, tax is imposed at the 33% corporate tax rate.

Interest – Interest paid to a nonresident is subject to a final withholding tax of 33%. Interest derived from the following, however, is exempt: short-term import credits and overdrafts; credits to finance or pre-finance exports; credits obtained by financial corporations and authorised banks; credit for trade transactions obtained through financial corporations or authorised banks; and credits obtained by foreign, mixed or domestic companies whose activities are considered beneficial to national economic development under guidelines set by the National Council on Economic and Social Policy.

Royalties – Royalties paid made to a nonresident company are subject to a final withholding tax of 33%. Royalties derived from the exploitation of software are subject to the 33% tax, but only on 80% of their amount.

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No (but see registration tax under "Other", below).

Payroll tax – An employer must contribute 4% of its monthly payroll to a family subsidy and 3% to the Institute of Family Welfare, together with an additional 2% contribution to the National Apprenticeship Service. The contribution is deductible and may be reduced if the company operates its own training program.

Real property tax – Real estate is subject to municipal taxation, usually levied at rates within a band based on the value of property without regard to the number of owners or the taxpayer's personal wealth.

Social security – The employer's contribution for pay-related social insurance is 8.5% of salary for health insurance, 11.625% for the general pension scheme and a percentage (which varies by job type) for work accident insurance. The employer also must withhold and remit the employee's share of the social security contributions.

Stamp duty – 0%

Transfer tax – See under "Stamp duty".

Other – Registration tax applies to documents (e.g. legal acts, bylaws, etc.) registered with the Chamber of Commerce (0.3% to 0.7%) or the Registry of Public Deeds (0.5% to 1%), calculated on items such as subscribed capital, transaction amounts stated in the document to be registered or the appraisal value of immovable property. Relief is available if a document or act is subject to both registration tax and stamp duty (stamp duty will not be levied) or to registration in both the Chamber of Commerce and the Registry of Public Deeds (the public deeds levy is imposed).

A municipal industry and trade tax ranging from 0.2% to 1% is levied on gross receipts derived from carrying out industrial, commercial and service activities within a municipal territory. A taxpayer with assets valued above COP 3 billion is assessed a 1.2% assets tax.

A 0.4% financial transactions tax is imposed on withdrawals from checking and savings accounts, including accounts with the central bank.

Anti-avoidance rules:

Transfer pricing – The transfer pricing regime is based on the OECD transfer pricing guidelines, with the arm's length principle applying in setting base prices and profit margins on transactions with foreign related parties. Taxpayers engaged in related party transactions must file an annual return and, as a general rule, prepare a study.

Advance pricing agreements may be negotiated with the local tax authorities.

Thin capitalisation – No

Controlled foreign companies – No

Other – No

Disclosure requirements – No

Administration and compliance:

Tax year – Calendar year

Consolidated returns – Consolidated returns generally are not allowed (except for the transfer pricing return).

Filing requirements – A self-assessment system applies, under which a company must complete a tax return and compute its own liability. The return must be filed by a deadline that is set annually (generally April-May) and that varies depending on the type of taxpayer and the last digit of the taxpayer's tax ID number.

Penalties – Late filing penalties amount to 5% per month of delay up to 100% of the tax or withholding tax due. The penalty increases to 10% per month, with a 200% ceiling for late filing and a summons by the tax authorities. Late payment interest also is charged. The penalty for amendments is 10% of the additional tax per month.

Rulings – A ruling is available on direct tax issues and APAs may be negotiated under the transfer pricing rules.

Personal taxation:

Basis – A resident individual is taxed on worldwide income; a nonresident is taxed only on Colombia-source income. A foreign resident individual will be taxed on worldwide income as from the 5th year residing in the country.

Residence – An individual is resident for tax purposes if he/she is present in Colombia for more than 6 months in the tax year (continuous or otherwise) or, if outside Colombia, the individual's family is in Colombia (this does not apply to foreigners).

Filing status – Joint filing is not permitted; each individual must file his/her own tax return if so required.

Taxable income – Most income, including capital gains, is subject to taxation. Pension fund contributions, however, are not taxed and 25% of all labour income is exempt.

Capital gains – Capital gains (e.g. inheritances, gifts and proceeds from the sale of real estate) are subject to tax. However, gains derived from the sale of shares through a stock exchange are not considered occasional earnings and are thus tax exempt.

Deductions and allowances – Colombia provides deductions and allowances related to education and health expenditure and the purchase (and related interest) of a residence. Health allowances are solely available for employees earning less than COP 96 million, while deductible mortgage interest is limited to COP 25 million.

Rates – Taxable income ranges are based on the UVT (tax value unit) and are 0% for UVT 0 to 1,090; 19% for UVT 1,091 to 1,700; 28% for UVT 1,701 to 4,100; and 33% for UVT 4,101 and above.

Other taxes on individuals:

Capital duty – No (but see discussion on registration tax under "Other" in the corporate tax section).

Stamp duty – 0%

Capital acquisitions tax – Capital gains derived from an inheritance or a gift are treated as ordinary taxable income.

Real property tax – Real estate is subject to municipal taxation, which is usually levied at rates within a band based on the value of property without regard to the number of owners or the taxpayer's personal wealth.

Inheritance/estate tax – Gifts are treated as capital gains and subject to tax as ordinary income.

Net wealth/net worth tax – A presumptive minimum income is calculated annually at the rate of 3% on the taxpayer's net worth held in the year immediately preceding the taxable year at issue. Certain assets may be excluded from this calculation, such as shares in Colombian companies and the individual's residence (up to a certain maximum value). Taxpayers with assets valued at more than COP 3 billion also are assessed a 1.2% assets tax.

Social security – An employee contributes 3.875% and 4% of salary for pension and health contributions, respectively. The employer withholds and remits the employee's share of the social security contributions.

Administration and compliance:

Tax year – Calendar year

Filing and payment – Tax on wages is withheld by the employer and remitted to the tax authorities. A resident is required to file an income tax return unless his/her income or total net assets do not exceed a limit set annually by the government.

Penalties – The penalty for late filing is 5% per month of delay up to 100% of the tax or withholding tax due. The penalty increases to 10% per month, with a 200% ceiling in the case of late filing and a summons by the tax authorities. Interest for late payment also is charged. The penalty for amendments is 10% of the additional tax per month.

Value added tax:

Taxable transactions – VAT is imposed on the sale of goods, the rendering of services in Colombia and on imports.

Rates – The standard rate is 16%, with a preferential rate of 0% applying to exports and certain domestic supplies. Higher rates apply, e.g. to recreational and sport boats and vehicles and mobile phone services. Lower rates apply to certain essential mass consumption goods and services.

Registration – VAT taxpayers must register with local tax authorities and obtain a VAT ID number. There is no threshold for registration purposes.

Filing and payment – VAT is computed in bimonthly periods using the subtraction method, crediting taxes paid on purchases against tax liabilities arising from sales. Special rules are provided for small taxpayers.

Source of tax law: Statutory Tax Code covers income, VAT, asset and stamp taxes. Others taxes are covered by special laws, decrees or local ordinances.

Tax treaties: Colombia has double taxation agreements with Bolivia, Ecuador and Peru in accordance with Andean Community (CAN) provisions and Spain.

Tax authorities: National Tax and Customs Office (DIAN)

International organisations: CAN (Andean Community), Latin America Integration Association and WTO

Dominican Republic

Summary and Conclusion

- The Dominican Republic provides an example of a country that undertook a number of reforms over the recent decade to respond to internal and external developments. However, revenue mobilization remains weak.
- Over the 2001 to 2010 period, tax revenue declined by 0.7 percent of GDP as taxes on international trade declined by more than increases in domestic taxes on consumption.
- The Dominican Republic's overall tax effort is low given its economic, social, institutional and demographic characteristics.
- Continued focus on improving tax policy and administration could contribute an additional 4.0 to 4.5 percent of GDP in revenue, with contributions from all major tax handles.
- Recent comparative data suggests that the Dominican Republic revenue effort from income taxes and VAT is below that of regional and comparator countries.
- The VAT rate is modestly above regional, income group, and world averages.
- Income tax and VAT productivity measures are significantly below comparator group averages.

- Given the broad potential scope for revenue mobilization, the Dominican Republic is a good candidate for an in-depth investigation/benchmarking study to identify tax policy and administration reforms that could significantly improve the mobilization of revenue.

Major Developments and Features of Current Tax System

Evolution of Revenue

Over the period 2001 to 2010, the Dominican Republic's tax revenue decreased by 0.7 percent of GDP. Revenues improved in the middle of the decade by 2.1 percent to reach a high point of 15.9 percent of GDP in 2007. However, revenues declined after 2007 due to tax reforms, natural disaster, and the financial crisis. Over the period, the Dominican Republic's revenue mix shifted to an increased reliance on domestic sales taxes and less reliance on international trade.

- Income tax revenue effort decreased 0.3 percent of GDP over the period.
- Revenue effort from taxes on goods and services increased by 2.6 percent of GDP.
- Revenue effort from taxes on international trade decreased by 3.3 percent of GDP.

Dominican Republic Government Current Revenue
(% of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Taxes on Income & Profits	3.4%	3.2%	3.3%	2.7%	2.9%	3.3%	4.0%	3.7%	3.3%	3.1%
Property Taxes	0.1%	0.1%	0.2%	0.2%	0.4%	0.6%	0.8%	0.8%	0.6%	0.7%
Taxes on Goods and Services	5.3%	5.3%	5.6%	5.9%	7.6%	8.7%	9.4%	8.9%	7.9%	7.9%
Taxes on International Trade	4.7%	4.8%	2.8%	4.1%	3.7%	2.3%	1.7%	1.6%	1.3%	1.4%
Total Tax Revenue	**13.8%**	**13.6%**	**11.9%**	**12.9%**	**14.6%**	**14.8%**	**15.9%**	**14.9%**	**13.1%**	**13.1%**

Source: IMF GFS Database, IMF Staff Report for the Fourth SBA (Dec 2010)

Summary of Reforms

Since the 2003 financial crisis, the Dominican Republic has implemented several tax policy and administrative reforms. In 2005, a Tax Reform Act passed which increased rates through Selective Consumption Taxes (SCT) and widened the tax base through the introduction of new taxes and removal of exemptions. In March 2007, the country ratified and entered into the CAFTA Agreement, and soon after the Law of Fiscal Reform passed. This reform included an increase in several taxes and modifications of the rights and obligations of taxpayers. Its purpose was to compensate for the loss of customs revenues as a result of entry into CAFTA. The reform helped improve and strengthen the administration by imposing severe fines for violations, increasing authority of tax examiners, and opening up new communication lines with taxpayers via electronic means.

Over the period, several reforms included:

- Raising the VAT rate from 8 percent to 12 percent in 2001, and again to 16 percent in 2005.
- The 2005 Tax Reform Act increased the income tax and withholding rates from 25% to 30%[5], restricted the VAT zero-rate to exports, introduced a 1.0 percent annual tax on assets of single-owner businesses and introduced a selective 13 percent tax on national consumption of fuel and petroleum.
- Law of Fiscal Reform (LFR) in 2007, which included measures to:
    - Increase excise tax rates for alcoholic beverages, cigarettes and fuel tax rates; raise car registration fees and increase the tax on gambling establishments and lottery games;
    - Establish more severe sanctions/penalties for violations of tax law, and increase the authority of tax examiner's inspection powers;
    - Increase fuel tax by 3 percent and raise sports gambling tax by 20 percent; and
    - Establish a Simplified Estimation Regime (RES) of a global 30 percent deduction on gross income for certain individuals who qualify.

Tax System Profile (2008-09)

The attached tables provide a high-level profile of the Dominican Republic's tax system as of fiscal year 2008/09 and compare it with the Latin America and Caribbean Region (LAC), other low-middle-income countries, and the rest of the world. The data in this section is from USAID's Collecting Taxes database. The most recent year for comparative data is the 2008/09 fiscal year. Country specific data and reforms through 2010 are referenced in the previous sections.

[5] The 2005 Tax Reform Act increased the corporate income tax and withholding rates from 25 percent to 30 percent. These rates fell to 29 percent in 2007, 27 percent in 2008, and 25 percent in 2009.

The Dominican Republic's "overall tax effort"—the ratio of actual tax collections to its estimated maximum revenue capacity given its economic, social, institutional and demographic characteristics—is 48.3 percent which is significantly below the lower-middle-income countries, whose average is 63.2 percent.[6]

Revenue Effort

- "Revenue Effort" provides a measure of the amount of revenue from income and sales taxes that a government collects as a share of GDP.
- The Dominican Republic's overall tax revenue effort is 15.0 percent of GDP - about 5 percentage points below that of regional and income group comparator countries.
- The Dominican Republic's revenue effort from personal income tax, at 1.0 percent, is substantially below that of the LAC regional average and the income group averages, which are in the 2.0 to 2.5 percent range, and well below the world average of 3.36 percent.
    - ***Given that the PIT applies at a high rate beginning at a relatively low level of income, the performance of the PIT is weak.***
- Corporate income tax revenue effort is significantly below the world average and the LAC regional and income group averages.
- The revenue effort from VAT is well below the LAC regional, income group, and world averages.

Tax Structure

- The Dominican Republic's corporate income tax rate, at 25 percent, is in line with income group and world averages and slightly below the regional average which is 28.7 percent.
- The maximum PIT rate in the Dominican Republic, at 25 percent, is modestly below that of regional, income group and world averages.
- The tax wedge on labor income is in line with the regional, income group, and world averages.
- The VAT rate, at 16 percent, is above regional, income group and world averages.

Revenue Productivity

- "Revenue productivity" is measured as the portion of GDP that is mobilized for each point of tax rate.
- Corporate income tax productivity, at 0.07 percent of GDP of revenue for each percentage point of tax rate, is below regional, income group and world averages, at 0.14.
    - ***Given the corporate income tax rate, at 25%, the tax actually produces very little revenue. Continued focus on improving corporate taxation through base broadening and administration reforms could contribute an additional 1.7 percent of GDP in revenue.***
- Personal income tax productivity, at 0.05, is modestly below that of the regional, income group and world averages, which are in the 0.07 to 0.13 range.
    - ***Improving the revenue productivity for personal taxes to the regional average could contribute an additional 0.5 percent of GDP in revenue.***
- VAT productivity, at 0.29, and the VAT gross compliance ratio are well below regional, income group and world averages.
    - ***Improving VAT revenue productivity to the regional average could mobilize 2.5 percent of GDP in revenue.***

[6] See Revenue Mobilization in Developing Countries, SM//11/21 (International Monetary Fund, 2011, pp.60-63).

Tax Administration Structure and Efficiency

- The General Directorate of Internal Revenue (DGII) is responsible for administration of taxes in the Dominican Republic. A separate directorate is responsible for administration of taxes on imports— General Directorate of Customs (DGA).
- Tax administration in the Dominican Republic is organized along functional lines[7] and segmentation of taxpayers into local administrations, including a Large Tax Payer Unit.

Taxpayer Burden and Corruption Evidence

- Enterprise surveys by WB indicate that the percentage of Dominican Republic business taxpayers “expected to give gifts in meeting with tax officials” is 17.33 percent, which is significantly above the LAC average of 6.23 percent and the world average of 16.63.

- The WB Doing Business survey estimates that the average time required for Paying Taxes by a medium-sized company in the Dominican Republic amounted to 324 hours per year in early 2011 – modestly below the average of 385 hours for other LAC region countries.

[7] Tax administrations are generally organized by type of tax or by function. Tax-type organizations may have a VAT Dept., a Sales Tax Dept., a Personal Income Tax Dept., and a Corporate Income Tax Dept. Tax administrations organized along functional lines, however, will have units responsible for registration, tax payer services, return and payment processing, collections, audit, and objections and appeals in addition to support units responsible for Human Resources, Information Technology, Corporate Planning, Budgeting, Performance Monitoring and Evaluation and Internal Audit. All or most domestic taxes will be administered within these functional units.

ANNEX 1: Dominican Republic's Collecting Taxes Indicators

Total Tax Revenue	TAXY
	Tax Revenue as % of GDP
Dominican Republic	15.0
Latin America and the Caribbean[1]	20.3
Low-Middle-Income Economies[2]	19.5
World	19.8

Company Income Tax	CITR	CITY	CITPROD
	Tax Rate	Revenue as % GDP	Revenue Productivity
Dominican Republic	25.00	1.70	0.07
Latin America and the Caribbean[1]	28.69	3.86	0.14
Low-Middle-Income Economies[2]	24.68	3.42	0.14
World	25.32	3.33	0.14

Income Taxes on People	PITMINR	PITMINL	PITMAXR	PITMAXL
	Minimum Tax Rate	Minimum Income Level (Multiples of GDPpc)	Maximum Tax Rate	Maximum Income Level (Multiple of GDPpc)
Dominican Republic	15.00	1.78	25.00	3.70
Latin America and the Caribbean[1]	13.49	1.81	29.22	8.53
Low-Middle-Income Economies[2]	11.35	1.28	26.76	10.36
World	11.69	0.86	29.63	9.78

Income Taxes on People	PITY	PITPROD	SSR	WEDGE
	Revenue as % GDP	Revenue Productivity	Mandatory Combined Social Contribution Rates	Combined Rate of Personal and Labors Taxation
Dominican Republic	1.00	0.05	19.50	19.50
Latin America and the Caribbean[1]	2.10	0.07	16.74	18.12
Low-Middle-Income Economies[2]	2.48	0.11	16.87	19.98
World	3.36	0.13	16.16	20.61

Value Added Tax	VATR	VATY	VATGCR	VATPROD	THRESHOLD
	VAT rate	Revenue as % GDP	Gross Compliance Ratio	Revenue Productivity	Mandatory registration/ filing (annual turnover in USD)
Dominican Republic	16.00	4.70	33.70	0.29	N/A
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Tax Administration	Tax Staff	Payer to Staff	Function	LTU	Customs
	Tax staff per 1000 population	Number of tax payers per tax staff	Functional Organization	Large Taxpayer Unit	Customs and Tax Administration Combined
Dominican Republic	N/A	N/A	1.00	1.00	0.00
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World	0.76	437	0.89	0.85	0.29

Footnotes:

1. LAC countries include: Anguilla, Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay and Venezuela.
2. Low-Middle-Income Countries include: Dominican Republic, Ecuador, Egypt, Arab Rep., El Salvador, Fiji, Georgia, Guatemala, Guyana, Honduras, Indonesia, Iran, Islamic Rep., Iraq, Jamaica, Jordan, Kiribati, Kosovo, Lesotho, Macedonia, FYR, Maldives, Marshall Islands, Micronesia, Moldova, Morocco, Namibia, Nicaragua, Paraguay, Peru, Philippines, Samoa (Western), Sri Lanka, Suriname, Swaziland, Syrian Arab Republic, Thailand, Tonga, Tunisia, Turkmenistan, Ukraine and Vanuatu.

ANNEX 2: Dominican Republic Tax Highlights

Dominican Republic *Highlights*

Currency: Dominican Republic Peso (DOP)

Foreign exchange control: The foreign exchange regime is based on the free exchange of national currency against foreign currency.

Accounting principles/financial statements: IFRS applies.

Principal business entities: These are the limited liability company (LLC), corporation and branch of a foreign company.

Corporate taxation:

Residence – A company is resident if it is incorporated under the laws of the Dominican Republic or if it performs a permanent establishment in the Dominican Republic.

Basis – The Dominican Republic taxes primarily on a territorial basis, whereby business income derived from activities performed in, property situated or economically used in, or economic rights used in the Dominican Republic are taxed, regardless of the nationality, domicile or residence of the participants or the contracting location.

Taxable income – Corporate tax is levied on the aggregate net income of various sources of business income, including capital gains derived from the transfer of capital assets (generally land and shares). Certain items of investment income derived by resident corporate taxpayers from foreign sources also are subject to Dominican tax, including dividends, interest on loans and bank savings, gains from banking or financial operations, bonds, shares in capital companies, bills of exchange and other movable capital or securities on the capital markets.

Taxation of dividends – Local corporations must withhold at 25% on cash dividends paid or credited to shareholders (individuals or legal entities), regardless of the place of residence of the shareholders. If the company fails to withhold tax on a payment to a nonresident, the foreign recipient will be obliged to pay the tax due. The withholding acts as a credit against income tax and may be used to offset any further tax payment if, and when, income tax is paid on the amount distributed. Dividends paid in shares are not subject to withholding. Branches of foreign companies are not obliged to withhold when repatriating profits to their headquarters.

Capital gains – Capital gains derived from the sale of assets, immovable property or shares, are included in gross income and subject to corporate income tax at a rate of 25%. The capital gain is calculated by deducting from the sale price the acquisition cost adjusted for inflation and adding the accumulated earnings/losses.

Losses – Net operating losses may be carried forward for 5 years. Carryback is not allowed. The deduction is limited to 20% of the annual total net losses carried forward. For the fourth year, the 20% deduction may not exceed an amount equivalent to 80% of taxable income and, for the 5th year, the 20% deduction may not exceed 70% of taxable income. For newly formed entities, losses from the first year of operations should be fully deducted in the second year.

Rate – 25%

Surtax – No

Alternative minimum tax – A 1% asset tax paid in two instalments applies to the value of a corporation's total assets as it appears in the company's financial statements. The asset tax is considered a minimum tax payable when it is higher than the company's corporate income tax liability. Some deductions apply.

Foreign tax credit – Taxes paid abroad corresponding to foreign source income that is taxable in the Dominican Republic may be credited up to the amount of Dominican tax payable on the same basis.

Participation exemption – No

Holding company regime – No

Incentives – Various tax incentives are available and include regimes (e.g. those for free trade zones, tourism and renewable energy) that may provide a 100% exemption from national taxes and contributions.

Withholding tax:

Dividends – See under "Taxation of dividends".

Interest – Interest paid to a foreign financial institution is subject to a 10% withholding tax; the rate is 25% for non-financial institutions.

Royalties – Royalties and management fees paid to nonresidents are subject to a final 25% withholding tax.

Branch remittance tax – No

Other taxes on corporations:

Capital duty – Capital duty is levied on the formation of a corporation at a rate of 1% of the capital amount.

Payroll tax – Employers must pay a monthly tax equal to 1% of the regular payroll to finance "INFOTEP", a special training fund. The fringe benefits tax is levied at a 25% rate and is payable by the employer on a monthly basis.

Real property tax – Real estate tax is levied on residential and commercial property valued at more than DOP 5 million, at a rate of 1% on the value exceeding this amount.

Social security – Both employers and employees are required to make monthly contributions to the social security system. The system is comprised of the pension funds and family health insurance (financed 70% by employers and 30% by employees), and labour risk insurance (financed completely by employers). Contributions are calculated on the employee's earnings - i.e. the daily salary as increased by any additional payment of bonuses and holiday allowances. The upper limits for calculating theses contributions are based on multiples of the minimum salary (USD 180) and are 20, 10 and 4, respectively.

Stamp duty – Stamp duty is levied on most written contracts; the registration and renewal of trademarks; documents evidencing loans, debts, shares and guarantees; and all documents prepared or registered by notaries and registrars. The rates vary depending on the taxable event.

Transfer tax – All transfers of real property located in the Dominican Republic are subject to a transfer tax at a rate of 3% on the price of the property declared in the purchase and sale agreement.

Other – No

Anti-avoidance rules:

Transfer pricing – Transfer pricing rules/regulations are based on the OECD guidelines. The following transfer pricing methodologies are accepted: (1) cost plus method; (2) comparable uncontrolled price method; (3) transactional net margin method; (4) profit split method; (5) residual profit split method; and (6) resale price method. An annual information return must be submitted, starting with the 2011 tax year. Advance pricing agreements are possible in the hotel, pharmaceutical and energy sectors.

Thin capitalisation – No

Controlled foreign companies – No

Other – No

Disclosure requirements – No

Administration and compliance:

Tax year – There are four possible tax year ends: 31 March, 30 June, 30 September and (most popular among entities) 31 December.

Consolidated returns – Consolidated returns are not permitted; each company must file its own return.

Filing requirements – All entities operating in the Dominican Republic must file a tax return within 120 days after the fiscal year closes. A request for an extension to file may be made to the tax authorities (at least fifteen days before due date).

Penalties – Penalties may be imposed for late filing, failure to file and tax avoidance or evasion. Surcharges are 10% for the first month or fraction thereof and 4% thereafter. Interest of 1.73% applies for each month or fraction thereof.

Rulings – Taxpayers may request rulings from the tax authorities on the tax treatment of specific transactions. Such rulings are binding on the tax Administration with respect to the taxpayer that filed the request.

Personal taxation:

Basis – The Dominican Republic primarily operates a territorial system of taxation, although resident individuals are subject to tax on certain foreign investment income. Nonresident individuals are taxed only on Dominican-source income.

Residence – An individual is considered a resident if he/she remains in the country for more than 182 days in a fiscal year, whether or not continuous. Foreign individuals who become resident are subject to tax on their foreign-source income as of the third taxable year or period in which they become resident. For tax purposes, partnerships are treated as separate taxable persons from their members.

Filing status – Individuals are required to file separate returns.

Taxable income – The Dominican Republic applies a broad concept of income, which includes all income constituting earnings or profits resulting from goods or activities, all benefits and earnings accrued or collected, and capital gains, whatever their nature, origin or description. For resident taxpayers, business income includes foreign-source investment income.

Capital gains – Capital gains derived from the disposal of capital assets located in the Dominican Republic, whether the sale is of an occasional nature or otherwise, are subject to a 25% tax. Gain must be reported in the personal tax return for the same period in which the disposal took place.

Deductions and allowances – Resident individuals who carry out activities other than employment activities may deduct all expenses incurred that are necessary to obtain, maintain and preserve the taxable income or its source.

Subject to documentation requirements, an individual may deduct up to 10% of his/her net taxable income for educational expenses incurred for his/her benefit or that of self-employed direct dependents. The expenditure will not be considered additional remuneration in the case of employees if the compensation granted to employees is exempt from the income tax on salaries.

Rates – The following progressive rates apply to net taxable income (NTI) for FY 2010: 0% up to USD 9,291; 15% on NTI of USD 9,291 to USD 13,936; 20% on NTI of USD 13,936 to USD 19,355; and 25% on NTI of USD 19,355 and up. These amounts are adjusted for inflation at the beginning of each year according to the Central Bank inflation index.

Other taxes on individuals:

Capital duty – No

Stamp duty – Stamp duty is levied on most written contracts; the registration and renewal of trademarks; documents evidencing loans, debts, shares and guarantees; and all documents prepared or registered by notaries and registrars. The rates vary depending on the taxable event.

Capital acquisitions tax – No

Real property tax – Real estate tax is levied on residential and commercial property valued at more than DOP 5 million, at a rate of 1% on the value exceeding DOP 5 million.

Inheritance/estate tax – Inheritance and gift tax is levied on personal and real property that forms part of the gross estate of a deceased person, a gift of property located in the Dominican Republic and foreign-situs personal property of a deceased person who had Dominican nationality or whose last domicile was in the country. The rate is a flat 3% of the amount of the inherited estate.

Net wealth/net worth tax – See under “Real property tax”.

Social security – Dominicans and foreigners residing in the Dominican Republic must contribute to the social security system. Contributions are calculated on the basis of each employee's earnings - i.e. the daily salary increased by any additional payment in cash or in kind, although certain deductions apply. The employee rates for 2010 are 3.04% for family health insurance, 2.87% for the pension fund. The upper limits for calculating theses contributions are based on multiples of the minimum salary (USD 180) and are 20, 10 and 4, respectively. Contributions are deductible for calculating the employee income tax due.

Administration and compliance:

Tax year – Calendar year

Filing and payment – The tax return must be filed by 31 March of the year following the taxable year. Taxpayers whose only source of income is salary are not required to file (withholding serves as the final tax payment).

Penalties – Penalties and interest apply for late filing or failure to file. Surcharges are 10% for the first month or fraction thereof and 4% thereafter. Interest of 1.73% applies for each month or fraction thereof.

Value added tax:

Taxable transactions – VAT is levied on the supply of goods and services within the Dominican Republic and upon the import of goods.

Rate – 16%

Registration – VAT registration is included in the general registration as a taxpayer.

Filing and payment – Filing is required on a monthly basis by the 20th day of the month.

Source of tax law: Tax Code of the Dominican Republic, Law 11-92

Tax treaties: The Dominican Republic has 1 treaty (with Canada).

Tax authorities: *Dirección General de Impuestos Internos* (DGII)

International organisations: None

El Salvador

Summary and Conclusion

- El Salvador provides an example of a country that has significantly improved revenue mobilization over the course of the last decade through sustained efforts to strengthen tax administration and simplify the tax system.
- Over the 2001 to 2010 period, El Salvador increased tax revenue by 3.3 percent of GDP.
- Of the three main tax handles discussed in this note—Personal Income Tax, Corporate Income Tax and VAT—reforms focused on improving Corporate Income Tax administration are likely to have the greatest impact on immediately improving El Salvador's revenue mobilization efforts.
- Continued focus on improving administration, particularly for corporate taxation, and simplifying the tax system could contribute an additional 1.25 percent of GDP in revenue.
- Results for the 2009-10 fiscal year suggest that El Salvador's revenue effort from VAT is above that of regional and income-group comparator countries while income tax revenue effort is at or below that of regional and income group comparator countries on average.
- El Salvador's corporate income tax rate is similar to income group comparator countries and the world average.
- Its personal income tax rate is below that of comparator group averages but is applicable to lower levels of per capita income.
- The VAT rate is modestly lower than comparator group countries on average.
- VAT productivity is significantly above comparator group averages, while income tax productivity measures are generally below that of comparator country measures with corporate income tax productivity being particularly weak.

- Two areas for further investigation are proposed:
  - An examination of tax handles outside of VAT and income taxes; analyzing their potential to raise El Salvador's revenue yield closer to regional and income group norms.
  - An examination of measures to streamline and revise the current income tax system to simplify tax administration, reduce compliance costs for business, and improve revenue mobilization and economic efficiency.

Major Developments and Features of Current Tax System

Evolution of Revenue

Over the period 2001 to 2010, El Salvador increased tax revenue by 3.3 percent of GDP with improved revenue effort from all major domestic revenue sources.

- Income tax revenue effort increased 2.1 percent of GDP over the period.

- Revenue effort from taxes on goods and services increased by 1.5 percent of GDP.
- Revenue effort from taxes on international trade decreased modestly by 0.4 percent of GDP.

El Salvador Government Current Revenue
(% of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Taxes on Income & Profits	2.7%	3.3%	3.3%	3.3%	3.8%	4.4%	4.7%	4.7%	4.8%	4.8%
Property Taxes	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Taxes on Goods and Services	6.2%	6.2%	6.6%	6.5%	7.0%	7.9%	8.1%	8.2%	7.1%	7.7%
Taxes on International Trade	1.1%	1.1%	1.2%	1.1%	1.1%	1.1%	1.0%	0.8%	0.7%	0.7%
Total Tax Revenue	**10.0%**	**10.7%**	**11.2%**	**11.0%**	**12.4%**	**13.4%**	**14.0%**	**13.9%**	**12.6%**	**13.4%**

Source: IMF GFS Database, El Salvador Ministry of Finance

Summary of Reforms

Over the 2001 to 2009 period, El Salvador's revenue mobilization efforts primarily focused on strengthening the tax administration supported by technical Assistance from the IMF and USAID. Tax administration strengthening over the period aimed at improving voluntary compliance through improved taxpayer services, improved audit selection and auditing, and expanded authorities and staff for compliance enforcement. Reforms were supported by strengthening the structure, organization and allocation of functional responsibilities within the tax administration and the introduction of a new web-based tax administration system.

Illustrative impacts of reforms undertaken to date include:

- A new compliance call center improved collections from stop filers from an initial level of $US 2 million in 2007 to $US 5.2 million in 2009.
- Pursuit of tax fraud and corruption through a Criminal Investigation Unit has yielded $US 14 million to date.
- A new anti-corruption unit has handled more than 1,200 cases, conducted 300 investigations, submitted 11 cases for prosecution, and provided evidence to dismiss 16 tax officials.
- Improved taxpayer service through a new call center has increased the number of taxpayers served from 200 per day to over 1300 per day.

Over the period, several reforms were implemented to simplify the tax system, including:

- Restricting VAT zero-rating to exports;
- Eliminating exemptions on interest earned from bank accounts and capital gains of individuals;
- Broadening income tax withholding to non-residents;
- Introducing transfer pricing and thin capitalization rules;
- Eliminating subsidies on exports; and
- Increasing the tax on lottery prizes.

Tax System Profile (2009-10)

The attached tables provide a high-level profile of El Salvador's tax system as of fiscal year 2008/09 and compare it with the Latin America and Caribbean Region (LAC), other low-middle-income countries, and the rest of the world.

El Salvador's "overall tax effort"—the ratio of actual tax collections to its estimated maximum revenue capacity given its economic, social, institutional and demographic characteristics—is 53.8 percent which is almost 10 percentage points lower than the average overall tax effort for lower-middle-income countries of 63.2 percent. [8] ***Such a large divergence between El Salvador's overall tax effort and that of the comparator income group suggest that El Salvador could undertake policy and Administrative reforms to increase its revenue mobilization.***

Revenue Effort

- "Revenue Effort" provides a measure of the amount of revenue from income and sales taxes that a government collects as a share of GDP.
- El Salvador's overall tax revenue effort is 14 percent of GDP - about 6 percentage points below that of regional and income group comparator countries, ***reflecting lower reliance on excise taxes and other internal taxes and customs duties than comparator countries.***
- El Salvador's revenue effort from personal income tax is above that of the LAC regional average, similar to that of the income group average, and well below the world average.
- Corporate income tax revenue effort, at 2.3 percent, is considerably below the LAC regional average of 3.9 percent and income group and world averages near 3.4 percent.
- The revenue effort from VAT is broadly in-line with the income group average, and well above the regional and world averages.

Tax Structure

- El Salvador's corporate income tax rate, at 25 percent, is similar to income group and world averages but below the regional average, at 28.7 percent.
- The maximum PIT rate in El Salvador, at 25 percent, is below that of regional, income group and world averages.
- The VAT rate, at 13 percent, is below regional, income group and world averages, which are in the 14.5 to 16 percent range.

Revenue Productivity

- "Revenue productivity" is measured as the portion of GDP that is mobilized for each point of tax rate.
- Corporate income tax productivity, at 0.09 percent of GDP of revenue for each percentage point of tax rate, is below regional, income group and world averages, at 0.14.
    - ***If El Salvador could raise the productivity of its corporate income tax to the prevailing average in the region or income group, this would increase tax revenues by an additional 1.25 percent of GDP.***
    - This additional revenue could be mobilized through further improvements in tax administration, particularly in the areas of registration, audit and coordination with customs, and through simplification of the tax system.
- Personal income tax productivity, at 0.09, is above that of the regional average but below that of income group and world averages.
- Similarly, VAT productivity, at 0.56, is significantly above regional, income group and world averages. On the contrary, VAT gross compliance ratio for El Salvador is well below that of comparator country averages.

Tax Administration Structure and Efficiency

- The General Directorate for Internal Taxes is responsible for administration of taxes in El Salvador. A separate directorate is responsible for administration of taxes on imports—General Directorate for Customs.
- Tax administration in El Salvador is organized along functional lines and segmentation of taxpayers, including a Large Tax Payer Unit.

[8] See Revenue Mobilization in Developing Countries, SM//11/21 (International Monetary Fund, 2011, pp.60-63).

- Regional and income group comparator countries employ more than double the number of tax administrators per capita than El Salvador.
- However, the number of registered taxpayers per tax administer is significantly less than regional and income group comparator countries on average.

Taxpayer Burden and Corruption Evidence

- Enterprise surveys by WB indicate that the percentage of El Salvador business taxpayers "expected to give gifts in meeting with tax officials" is 2.62 percent, which is below the LAC average of 7.47 percent and the world average of 16.73.

- The WB Doing Business survey estimates that the average time required for Paying Taxes by a medium-sized company in El Salvador amounted to 320 hours per year in early 2010 – somewhat lower than the average of 385 hours for other LAC region countries and unchanged from the time estimated for El Salvador in 2006.

ANNEX 1: El Salvador's Collecting Taxes Indicators

Total Tax Revenue	TAXY
	Tax Revenue as % of GDP
El Salvador	14.0
Latin America and the Caribbean[1]	20.3
Low-Middle-Income Economies[2]	19.5
World	19.8

Company Income Tax	CITR	CITY	CITPROD
	Tax Rate	Revenue as % GDP	Revenue Productivity
El Salvador	25.00	2.30	0.09
Latin America and the Caribbean[1]	28.69	3.86	0.14
Low-Middle-Income Economies[2]	24.68	3.42	0.14
World	25.32	3.33	0.14

Income Taxes on People	PITMINR	PITMINL	PITMAXR	PITMAXL
	Minimum Tax Rate	Minimum Income Level (Multiples of GDPpc)	Maximum Tax Rate	Maximum Income Level (Multiple of GDPpc)
El Salvador	10.00	0.99	25.00	5.94
Latin America and the Caribbean[1]	13.49	1.81	29.22	8.53
Low-Middle-Income Economies[2]	11.35	1.28	26.76	10.36
World	11.69	0.86	29.63	9.78

Income Taxes on People	PITY	PITPROD	SSR	WEDGE
	Revenue as % GDP	Revenue Productivity	Mandatory Combined Social Contribution Rates	Combined Rate of Personal and Labors Taxation
El Salvador	2.40	0.09	20.80	20.90
Latin America and the Caribbean[1]	2.10	0.07	16.74	18.12
Low-Middle-Income Economies[2]	2.48	0.11	16.87	19.98
World	3.36	0.13	16.16	20.61

Value Added Tax	VATR	VATY	VATGCR	VATPROD	THRESHOLD
	VAT rate	Revenue as % GDP	Gross Compliance Ratio	Revenue Productivity	Mandatory registration/ filing (annual turnover in USD)
El Salvador	13.00	7.30	57.30	0.56	5,714.00
Latin America and the Caribbean[1]	14.40	6.35	66.05	0.45	24,218.24
Low-Middle-Income Economies[2]	14.90	7.27	68.53	0.47	41,954.80
World	15.67	6.33	63.11	0.41	40,552.18

Tax Administration	Tax Staff	Payer to Staff	Function	LTU	Customs
	Tax staff per 1000 population	Number of tax payers per tax staff	Functional Organization	Large Taxpayer Unit	Customs and Tax Administration Combined
El Salvador	0.19	184	1.00	1.00	N/A
Latin America and the Caribbean[1]	0.44	389	0.82	0.81	0.31
Low-Middle-Income Economies[2]	0.48	260	0.93	0.88	0.31
World	0.76	437	0.89	0.85	0.29

Footnotes:

1. LAC countries include: Anguilla, Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay and Venezuela.
2. Low-Middle-Income Countries include: Dominican Republic, Ecuador, Egypt, Arab Rep., El Salvador, Fiji, Georgia, Guatemala, Guyana, Honduras, Indonesia, Iran, Islamic Rep., Iraq, Jamaica, Jordan, Kiribati, Kosovo, Lesotho, Macedonia, FYR, Maldives, Marshall Islands, Micronesia, Moldova, Morocco, Namibia, Nicaragua, Paraguay, Peru, Philippines, Samoa (Western), Sri Lanka, Suriname, Swaziland, Syrian Arab Republic, Thailand, Tonga, Tunisia, Turkmenistan, Ukraine and Vanuatu.

Guatemala

Summary and Conclusion

- Guatemala provides an example of a country that has had a stagnant level of revenue mobilization over the course of the last decade despite efforts to strengthen tax administration and implement tax reform.
- Guatemala's revenue mobilization efforts are significantly below those of comparator countries given its economic, social, institutional and demographic characteristics.
- Continued focus on improving administration, particularly for corporate and personal income taxation, and improving income tax policy could contribute an additional 4.0 percent of GDP in revenue.
- Recent comparative data suggests that Guatemala's revenue effort from VAT is below that of regional comparator countries.
- Income tax revenue effort is significantly below that of regional and income group comparator countries on average.
- Guatemala's corporate and personal income tax rates are above the world average rates as well as the rates in regional and income group comparator countries.
- The VAT rate is lower than comparator group countries on average.
- VAT productivity is slightly above comparator group averages, while income tax productivity measures are significantly below that of comparator country measures.

- An area for further investigation is proposed:
  - An examination of policy and administrative reforms to improve the productivity of the corporate and personal income taxes, with a particular emphasis on exemptions and special privileges that are narrowing the tax bases.

Major Developments and Features of Current Tax System

Evolution of Revenue

Over the period 2001 to 2010, Guatemala's tax revenue has declined by 0.4 percent of GDP. Revenue improved by 1.2 percent of GDP through 2007 to reach 12.1 percent of GDP. However, gains in revenue mobilization eroded after 2007 because of tax reforms, elimination of tax laws, and the 2008 financial crisis. Guatemala's revenue mix over the period shifted to increased reliance on income taxes and less reliance on domestic sales taxes and international trade taxes.

- Income tax revenue effort increased 0.3 percent of GDP over the period.
- Revenue effort from taxes on goods and services decreased slightly by 0.3 percent of GDP.
- Revenue effort from taxes on international trade decreased modestly by 0.6 percent of GDP.

Guatemala Government Current Revenue
(% of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Taxes on Income & Profits	2.8%	3.3%	3.2%	3.0%	3.1%	3.3%	3.3%	3.3%	3.2%	3.1%
Property Taxes	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Taxes on Goods and Services	6.6%	7.0%	7.0%	7.1%	6.2%	7.1%	7.5%	7.0%	6.3%	6.3%
Taxes on International Trade	1.3%	1.4%	1.4%	1.3%	1.8%	1.2%	1.1%	0.9%	0.8%	0.7%
Total Tax Revenue	**10.9%**	**11.9%**	**11.7%**	**11.6%**	**11.2%**	**11.9%**	**12.1%**	**11.3%**	**10.4%**	**10.5%**

Source: IMF GFS Database, Tax Administration Superintendence (SAT)

Summary of Reforms

Guatemala's economy is one of the largest in Central America; however, due to its difficult past, the country continues to struggle with economic, social, and security issues. Since the 1996 Peace Accords, which ended three decades of civil war, the administration has focused on achieving the Peace Accord objectives of economic growth and implementing structural and fiscal reforms. In May 2000 the government, the private sector, and civil society formed a 'Fiscal Pact', a historic consensus on principles and pledges relating to such issues as balanced budgets, tax revenues, and public spending and borrowing.[9] The 'Fiscal Pacts' introduced in 2000 and reinforced again in 2004 initially allowed the government to increase tax revenue and the impact of direct taxes. However, to date, Guatemala has only partially implemented the Fiscal Pact, and progress towards increasing fiscal revenue, fighting tax evasion, and enhancing the transparency of government spending has been modest.

Highlights of key reforms undertaken to date include:

- Increasing VAT from 10% to 12% in 2001, and restricting VAT zero-rating to exports.
- Tax Administration Superintendence (SAT) establishment of its Institutional Strategic 106-point Plan in 2004 that focused on combating corruption, strengthening policies and procedures, and enhancing service to its taxpayers.
- On July 1, 2004, the Extraordinary and Temporary Support for the Peace Agreements Tax (IETAAP) was introduced at a rate of 2.5 percent for companies/individuals that carry out mercantile or agricultural activities in Guatemalan territory. Reforms in 2007 lowered the tax to 1 percent.
- Anti-evasion measures were added to the Tax on Commercial and Agricultural Establishments (IEMA). IEMA was repealed in 2006 and subsumed under the IETAAP.
- In 2006, Guatemala's Congress ratified the Central American Free Trade Agreement (CAFTA), effectively removing trade barriers across LAC countries, leading to a reduction in import taxes.
- In 2008, Congress approved the Solidarity Tax Law (ISO), replacing the IETAAP. ISO applies to individuals or legal entities with a gross margin exceeding 4 percent of gross income.
- The 2008 ISO Law raised personal and corporate income tax rates to its current levels of 15 percent and 31 percent, respectively.
- VAT exemptions for non-profit organizations and church institutions were also introduced in 2008.

[9] Guatemala Supporting Poverty Reduction & Sustainable Development, IDB Report Feb 2002. p.1-2.

Tax System Profile (2008-09)

The attached tables provide a high-level profile of Guatemala's tax system as of fiscal year 2008/09 and compare it with the Latin America and Caribbean Region (LAC), other low-middle-income countries, and the rest of the world. The data in this section is from USAID's Collecting Taxes database. The most recent year for comparative data is the 2008/09 fiscal year. Country specific data and reforms through 2010 are referenced in the previous sections.

Guatemala's "overall tax effort"—the ratio of actual tax collections to its estimated maximum revenue capacity given its economic, social, institutional and demographic characteristics—is 38.1 percent which found to be the lowest among lower-middle-income countries, whose average is 63.2 percent. [10] ***Such a large divergence between Guatemala's overall tax effort and that of the comparator income group suggest that Guatemala could undertake policy and Administrative reforms to increase its revenue mobilization.***

Revenue Effort

- "Revenue Effort" provides a measure of the amount of revenue from income and sales taxes that a government collects as a share of GDP.
- Guatemala's overall tax revenue effort in 2008 was 11.5 percent of GDP - about 9 percentage points below that of regional and income group comparator countries, ***about ½ of this difference reflects significantly lower reliance on personal and corporate income taxes than comparator countries.***
    - More recent data shows a decline in revenue effort as a share of GDP to 10.5 percent in 2010.
- Guatemala's revenue effort from personal income tax, at 0.30 percent, is substantially below that of the LAC regional average and the income group averages, which are in the 2.0 to 2.5 percent range, and extremely below the world average of 3.36 percent.
- Corporate income tax revenue effort is well below the world average and the LAC regional and income group averages.
- The revenue effort from VAT is similar to the LAC regional and world averages, and modestly below that of the income group averages.

Tax Structure

- Guatemala's corporate income tax rate, at 31 percent, is well above income group and world averages and modestly above the regional average which is 28.7 percent.
- The maximum PIT rate in Guatemala, at 31 percent, is above that of regional, income group and world averages.
- The tax wedge on labor income is relatively low in comparison to the regional, income group, and world averages.
- The VAT rate, at 12 percent, is below regional, income group and world averages, which are in the 14.5 to 16 percent range.

Revenue Productivity

- "Revenue productivity" is measured as the portion of GDP that is mobilized for each point of tax rate.
- Corporate income tax productivity, at 0.07 percent of GDP of revenue for each percentage point of tax rate, is below regional, income group and world averages, at 0.14.

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[10] See Revenue Mobilization in Developing Countries, SM//11/21 (International Monetary Fund, 2011, pp.60-63).

- *Given the high corporate income tax rate, at 31%, the tax actually produces very little revenue. Based on the averages, revenue performance is only about half of what would be expected. Continued focus on improving corporate taxation could contribute an additional 2.2 percent of GDP in revenue.*

- Personal income tax productivity, at 0.01, is well below that of the regional, income group and world averages, which are in the 0.07 to 0.13 range.
  - ***Improving the revenue productivity for personal taxes could contribute an additional 1.8 percent of GDP in revenue.***
- Conversely, VAT productivity, at 0.51, is significantly above regional, income group and world averages but the VAT gross compliance ratio is modestly below that of comparator country averages.

Tax Administration Structure and Efficiency

- The Tax Administration Superintendence (SAT) is responsible for administration of taxes in Guatemala. A separate directorate, supervised by SAT, is responsible for administration of taxes on imports—General Directorate for Customs.
- Tax administration in Guatemala is organized along functional lines[11] and segmentation of taxpayers into municipalities, including a Large Taxpayer Unit.

Taxpayer Burden and Corruption Evidence

- Enterprise surveys by WB indicate that the percentage of Guatemala business taxpayers "expected to give gifts in meeting with tax officials" is 3.93 percent, which is below the LAC average of 6.23 percent and the world average of 16.63.

- The WB Doing Business survey estimates that the average time required for Paying Taxes by a medium-sized company in Guatemala amounted to 344 hours per year in early 2011 – which is somewhat lower than the average of 385 hours for other LAC region countries and unchanged from the time estimated for Guatemala in 2006.

[11] Tax administrations are generally organized by type of tax or by function. Tax-type organizations may have a VAT Dept., a Sales Tax Dept., a Personal Income Tax Dept., and a Corporate Income Tax Dept. Tax administrations organized along functional lines, however, will have units responsible for registration, tax payer services, return and payment processing, collections, audit, and objections and appeals in addition to support units responsible for Human Resources, Information Technology, Corporate Planning, Budgeting, Performance Monitoring and Evaluation and Internal Audit. All or most domestic taxes will be administered within these functional units.

ANNEX 1: Guatemala's Collecting Taxes Indicators

Total Tax Revenue	TAXY
	Tax Revenue as % of GDP
Guatemala	11.5
Latin America and the Caribbean[1]	20.3
Low-Middle-Income Economies[2]	19.5
World	19.8

Company Income Tax	CITR	CITY	CITPROD
	Company Tax Rate	Revenue as % GDP	Revenue Productivity
Guatemala	31.00	2.10	0.07
Latin America and the Caribbean[1]	28.69	3.86	0.14
Low-Middle-Income Economies[2]	24.68	3.42	0.14
World	25.32	3.33	0.14

Income Taxes on People	PITMINR	PITMINL	PITMAXR	PITMAXL
	Minimum Tax Rate	Minimum Income Level (Multiples of GDPpc)	Maximum Tax Rate	Maximum Income Level (Multiple of GDPpc)
Guatemala	15.00	1.59	31.00	14.61
Latin America and the Caribbean[1]	13.49	1.81	29.22	8.53
Low-Middle-Income Economies[2]	11.35	1.28	26.76	10.36
World	11.69	0.86	29.63	9.78

Income Taxes on People	PITY	PITPROD	SSR	WEDGE
	Revenue as % GDP	Revenue Productivity	Mandatory Combined Social Contribution Rates	Combined Rate of Personal and Labors Taxation
Guatemala	0.30	0.01	13.50	13.50
Latin America and the Caribbean[1]	2.10	0.07	16.74	18.12
Low-Middle-Income Economies[2]	2.48	0.11	16.87	19.98
World	3.36	0.13	16.16	20.61

Value Added Tax	VATR	VATY	VATGCR	VATPROD	THRESHOLD
	VAT rate	Revenue as % GDP	Gross Compliance Ratio	Revenue Productivity	Mandatory registration/ filing (annual turnover in USD)
Guatemala	12.00	6.10	57.30	0.51	7,549.00
Latin America and the Caribbean[1]	14.40	6.35	66.05	0.45	24,218.24
Low-Middle-Income Economies[2]	14.90	7.27	68.53	0.47	41,954.80
World	15.67	6.33	63.11	0.41	40,552.18

Tax Administration	Tax Staff	Payer to Staff	Function	LTU	Customs
	Tax staff per 1000 population	Number of tax payers per tax staff	Functional Organization	Large Taxpayer Unit	Customs and Tax Administration Combined
Guatemala	N/A	N/A	1.00	1.00	1.00
Latin America and the Caribbean[1]	0.44	389	0.82	0.81	0.31
Low-Middle-Income Economies[2]	0.48	260	0.93	0.88	0.31
World	0.76	437	0.89	0.85	0.29

Footnotes:

1. LAC countries include: Anguilla, Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay and Venezuela.
2. Low-Middle-Income Countries include: Dominican Republic, Ecuador, Egypt, Arab Rep., El Salvador, Fiji, Georgia, Guatemala, Guyana, Honduras, Indonesia, Iran, Islamic Rep., Iraq, Jamaica, Jordan, Kiribati, Kosovo, Lesotho, Macedonia, FYR, Maldives, Marshall Islands, Micronesia, Moldova, Morocco, Namibia, Nicaragua, Paraguay, Peru, Philippines, Samoa (Western), Sri Lanka, Suriname, Swaziland, Syrian Arab Republic, Thailand, Tonga, Tunisia, Turkmenistan, Ukraine and Vanuatu.

ANNEX 2: Guatemala Tax Highlights

Guatemala *Highlights*

Currency: Guatemalan Quetzal (GTQ)

Foreign exchange control: No

Accounting principles/financial statements: IFRS

Principal business entities: These are a stock corporation, limited partnership by shares, limited liability company and branch of a foreign entity.

Corporate taxation:

Residence – A corporation is resident in Guatemala if it is incorporated in Guatemala.

Basis – Guatemala operates a territorial system under which income tax is levied only on Guatemalan-source income. Resident companies may opt to be taxed under (1) the general regime, where a flat 5% tax is imposed on monthly gross income; (2) or the optional regime, where tax is levied at a rate of 31% on net taxable income.

Taxable income – A company that elects to be assessed under the optional tax regime is required to calculate taxable income as gross income less necessary costs and expenses, plus nondeductible expenses less exempt income and other specific deductions established by the law, less tax credits.

Taxation of dividends – Dividends received by residents from profits that have been subject to income tax at the corporate level are exempt from further taxation.

Capital gains – Capital gains are taxed at 10% under the general income tax regime and 31% under the optional tax regime.

Losses – Ordinary losses may not be carried forward or back. Under the optional tax regime; capital losses may be carried forward 5 years to offset capital gains.

Rate – The rate is 5% on gross income under the general income tax regime and 31% on taxable income under the optional regime.

Surtax – No

Alternative minimum tax – A solidarity tax (ISO) is applicable to companies under the optional regime at a rate of 1% on total assets or gross income, whichever is greater.

Foreign tax credit – No

Participation exemption – No

Holding company regime – No

Incentives – In addition to free zones, various incentives are available, including those for the promotion of mining, exports and tourism.

Withholding tax:

Dividends – Dividends paid to a nonresident are not subject to withholding tax if the distributed profits were taxed at the corporate level. Otherwise, the withholding tax is 10%.

Interest – Interest paid to a nonresident is subject to a 10% withholding tax.

Royalties – Royalties paid to a nonresident are subject to a 31% withholding tax.

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – Real estate tax is imposed at progressive rates up to 0.9%.

Social security – Social security contributions must be made by the employer at a rate of 12.67% of an employee's annual salary.

Stamp duty – Stamp tax is levied on various documents at a rate of 3%. The stamp tax does not affect contracts or documents relating to VATable transactions because double taxation is prohibited.

Transfer tax – No

Other – No

Anti-avoidance rules:

Transfer pricing – No

Thin capitalisation – No

Controlled foreign companies – No

Other – No

Disclosure requirements – No

Administration and compliance:

Tax year – Calendar year

Consolidated returns – There are no provisions for group taxation; each entity must file a separate return.

Filing requirements – An annual income tax return is due 3 months after the close of the previous tax period (i.e. March).

Penalties – Penalties are imposed for late filing, failure to file, under-reporting or tax avoidance/evasion.

Rulings – Taxpayers may request a ruling on the tax consequences of transactions in which they have a direct interest. A binding ruling must be issued no later than 60 working days after submission of the request.

Personal taxation:

Basis – Resident individuals are subject to income tax on their Guatemalan-source income. Nonresident individuals are taxed via withholding on their Guatemalan-source income.

Residence – While Guatemala does not define residence for individual tax purposes, a definition is provided for nonresidents. A nonresident is an individual who remains abroad, uninterrupted, for 1 year, and whose absence covers more than 6 months of any given tax year.

Filing status – Each individual must file a return.

Taxable income – Tax is generally imposed on all income arising from Guatemalan sources, including income derived from capital, goods and services.

Capital gains – No

Deductions and allowances – In addition to a personal allowance of GTQ 36,000, individuals may deduct various items from income, including: certain insurance premiums; court-ordered alimony payments; medical expenses; and membership fees for professional organisations.

Rates – The personal income of residents is taxed at progressive rates from 15% to 31%. Nonresident individuals are taxed via withholding at a flat rate of 31% on Guatemalan-source income.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – Real estate tax is imposed at progressive rates up to 0.9%.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – Employees contribute to social security at a rate of 4.83% of their total monthly remuneration.

Administration and compliance:

Tax year – Calendar year

Filing and payment – All individuals are required to file a tax return by the third month after the close of the previous tax year. Individuals who derive only employment income in an amount of GTQ 36,000 or less are not required to file a tax return.

Penalties – Individuals are liable for a penalty of up to 100% of any unpaid tax liability.

Value added tax:

Taxable transactions – VAT applies to most sales of goods, the provision of services and imports.

Rates – The standard VAT rate is 12%.

Registration – Registration for VAT purposes is generally required upon incorporation.

Filing and payment – Entities are required to file monthly returns.

Source of tax law: Income Tax Law (Decree No. 26-92) and regulations; Value Added Tax Law (Decree No. 27-92) and regulations; ISO Law (Decree No. 73-2008)

Tax treaties: Guatemala has not concluded any double tax treaties.

Tax authorities: Superintendent of Tax Administration

International organisations: MCCA (Mercado Comun Centroamericano); Dominican Republic and Central America Free Trade Agreement; Central America agreement with Dominican Republic, Chile, Panama and Colombia

Honduras

Summary and Conclusion

- Honduras provides an example of a country that has undertaken modest tax policy and administration reforms to maintain a given level of revenue.
- As a result, Honduras' level of revenue mobilization is broadly in line with its capacity given its economic, social, institutional and demographic characteristics.
- Over the 2001 to 2010 period, Honduras' tax revenue declined by 1.4 percent of GDP, despite a continued focus on improving administration, particularly for addressing tax evasion, and enhancing the collection capacity of the system.
- Recent comparative data suggests that Honduras's revenue effort from VAT is slightly below that of regional and income group comparator countries.
- Income tax revenue effort is significantly below that of regional and income group comparator countries on average.
- Honduras' corporate and personal income tax rates are below the world average rates and the regional comparator countries.
- The VAT rate is lower than comparator group countries on average.
- VAT productivity is slightly above comparator group averages, and income tax productivity measures are in line or slightly below that of comparator country measures.

- Two areas for further investigation are proposed:
    - An examination of ways to improve the administration and yield of income taxes with a view to reducing the reliance on consumption taxes in the overall revenue mix.
    - An examination of incentives and special privileges and regimes in the VAT and income tax and their revenue cost—i.e., a tax expenditure analysis.

Major Developments and Features of Current Tax System

Evolution of Revenue

Over the period 2001 to 2010, Honduras's tax revenue declined by 1.4 percent of GDP as significant declines in taxes on goods and services and international trade taxes were offset by an increase in income taxes.

- Income tax revenue effort increased 1.4 percent of GDP over the period.
- Revenue effort from taxes on goods and services declined by 3.0 percent of GDP.
- Revenue effort from taxes on international trade decreased modestly by 0.6 percent of GDP.

Honduras Government Current Revenue
(% of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Taxes on Income & Profits	3.0%	2.9%	3.1%	3.7%	3.8%	4.5%	5.1%	5.0%	4.6%	4.4%
Property Taxes	0.2%	0.2%	0.2%	0.3%	0.4%	0.2%	0.2%	0.2%	0.1%	0.1%
Taxes on Goods and Services	11.4%	10.1%	9.2%	9.3%	9.2%	9.4%	9.9%	9.7%	8.9%	8.4%
Taxes on International Trade	1.4%	1.2%	1.3%	1.2%	1.2%	1.1%	1.2%	1.1%	0.8%	0.8%
Total Tax Revenue	**16.0%**	**14.4%**	**13.8%**	**14.5%**	**14.5%**	**15.2%**	**16.3%**	**16.0%**	**14.3%**	**14.6%**

Source: IMF GFS Database, ECLAC, Honduras Secretaria de Finanzas

Summary of Reforms

The Honduran tax system is often characterized by the predominance of sales taxes on goods and services, with less emphasis on income and assets. Similar to other countries in the region, tax evasion and a range of exemptions significantly reduce the tax base. The reforms in 2002/2003 helped raised tax revenues through the elimination of personal tax exemptions, increasing rates and introducing measures to reduce tax avoidance by corporations.

Illustrative impacts of reforms undertaken to date include:

- The Executive Tax Directorate (DEI) reform in 2003/2004, introducing new measures to improve tax collection through the launch of an Internet-based system to make reporting more efficient, and implanting a new organizational structure to include customs, compliance, and large taxpayer units.
- A series of reforms in 2002/2003 that introduced various tax modifications aimed at improving distributional equity, expanding the tax base, reducing fraud, and streamlining tax administration. (Financial Equilibrium & Social Protection Law, Tax Equity Law, Public Finance Rationalization Law)
- Tax Equity Law in 2003 increased the range of goods subject to sales tax, improved the auditing of small businesses and large taxpayers, increased taxes on bonuses, and expanded the taxable beverage base.
- Tax reforms in 2010 introduced several new taxes including a new tax on dividends, tax on rental properties, expanding income tax to cover capital earnings, increased taxes on tobacco, alcohol, and telecommunications.

Tax System Profile (2008-09)

The attached tables provide a high-level profile of Honduras's tax system as of fiscal year 2008/09 and compare it with the Latin America and Caribbean Region (LAC), other low-middle-income countries, and the rest of the world. The data in this section is from USAID's Collecting Taxes database. The most recent year for comparative data is the 2008/09 fiscal year. Country specific data and reforms through 2010 are referenced in the previous sections.

Honduras's "overall tax effort"—the ratio of actual tax collections to its estimated maximum revenue capacity given its economic, social, institutional and demographic characteristics—is 64.6 percent, which is slightly above the lower-middle-income countries average of 63.2 percent. [12]

[12] See Revenue Mobilization in Developing Countries, SM//11/21 (International Monetary Fund, 2011, pp.60-63).

Revenue Effort

- "Revenue Effort" provides a measure of the amount of revenue from income and sales taxes that a government collects as a share of GDP.
- Honduras's overall tax revenue effort is 15.6 percent of GDP - about 4 percentage points below that of regional and income group comparator countries.
- Honduras's revenue effort from personal income tax, at 1.60 percent, is well below that of the LAC regional average and the income group averages, which are in the 2.1 to 2.5 percent range, and extremely below the world average of 3.36 percent.
- Corporate income tax revenue effort, at 3.3 percent of GDP, is similar to the regional and world averages and slightly below the LAC regional average of 3.9 percent.
- The revenue effort from VAT is similar to the LAC regional and world averages, and modestly below that of the income group averages.

Tax Structure

- Honduras's corporate income tax rate, at 25 percent, is in line with the income group and world averages and slightly below the regional average which is 28.7 percent.
- The maximum PIT rate in Honduras, at 25 percent, is below that of regional, income group and world averages.
- The VAT rate, at 12 percent, is below regional, income group and world averages, which are in the 14.5 to 16 percent range.
- The tax wedge on labor income is relatively low in comparison to the regional, income group, and world averages.

Revenue Productivity

- "Revenue productivity" is measured as the portion of GDP that is mobilized for each point of tax rate.
- Corporate income tax productivity, at 0.13 percent of GDP of revenue for each percentage point of tax rate, is broadly in line with the income group and world averages, at 0.14.
- Personal income tax productivity, at 0.07, is equal to the regional average, and modestly below the income group and world averages, which are in the 0.11 to 0.13 range.
    - ***Improving the revenue productivity for personal taxes in line with the income group average could contribute an additional 1.0 percent of GDP in revenue.***
- VAT productivity, at 0.51, is above regional, income group and world averages while the VAT gross compliance ratio is slightly below the world averages and modestly below the regional and income group comparator countries.

Tax Administration Structure and Efficiency

- The Executive Tax Directorate (DEI) is responsible for administration of taxes in Honduras. DEI works in conjunction with the Secretary of Finance, functioning as a separate body within the government. The Adjunct Directorate for Customs, supervised by DEI, is responsible for administration of taxes on imports.
- Tax administration in Honduras is organized along functional lines[13] and segmentation of taxpayers into regional departments, including a Large Tax Payer Unit (LTU). This division under DEI is still in development.

[13] Tax administrations are generally organized by type of tax or by function. Tax-type organizations may have a VAT Dept., a Sales Tax Dept., a Personal Income Tax Dept., and a Corporate Income Tax Dept. Tax administrations organized along functional lines, however, will have units responsible for registration, tax payer services, return and payment processing, collections, audit, and objections and appeals in addition to support units responsible for

Taxpayer Burden and Corruption Evidence

- Enterprise surveys by WB indicate that the percentage of Honduras business taxpayers "expected to give gifts in meeting with tax officials" is 2.76 percent, which is well below the LAC average of 6.23 percent and the world average of 16.63.

- The WB Doing Business survey estimates that the average time required for Paying Taxes by a medium-sized company in Honduras amounted to 224 hours per year in early 2011 – which is substantially lower than the average of 385 hours for other LAC region countries. Prior to 2009, this figure was 424.

Human Resources, Information Technology, Corporate Planning, Budgeting, Performance Monitoring and Evaluation and Internal Audit. All or most domestic taxes will be administered within these functional units.

ANNEX 1: Honduras's Collecting Taxes Indicators

Total Tax Revenue	TAXY
	Tax Revenue as % of GDP
Honduras	15.6
Latin America and the Caribbean[1]	20.3
Low-Middle-Income Economies[2]	19.5
World	19.8

Company Income Tax	CITR	CITY	CITPROD
	Tax Rate	Revenue as % GDP	Revenue Productivity
Honduras	25.00	3.30	0.13
Latin America and the Caribbean[1]	28.69	3.86	0.14
Low-Middle-Income Economies[2]	24.68	3.42	0.14
World	25.32	3.33	0.14

Income Taxes on People	PITMINR	PITMINL	PITMAXR	PITMAXL
	Minimum Tax Rate	Minimum Income Level (Multiples of GDPpc)	Maximum Tax Rate	Maximum Income Level (Multiple of GDPpc)
Honduras	10.00	2.04	25.00	14.55
Latin America and the Caribbean[1]	13.49	1.81	29.22	8.53
Low-Middle-Income Economies[2]	11.35	1.28	26.76	10.36
World	11.69	0.86	29.63	9.78

Income Taxes on People	PITY	PITPROD	SSR	WEDGE
	Revenue as % GDP	Revenue Productivity	Mandatory Combined Social Contribution Rates	Combined Rate of Personal and Labors Taxation
Honduras	1.60	0.07	10.50	10.50
Latin America and the Caribbean[1]	2.10	0.07	16.74	18.12
Low-Middle-Income Economies[2]	2.48	0.11	16.87	19.98
World	3.36	0.13	16.16	20.61

Value Added Tax	VATR	VATY	VATGCR	VATPROD	THRESHOLD
	VAT rate	Revenue as % GDP	Gross Compliance Ratio	Revenue Productivity	Mandatory registration/ filing (annual turnover in USD)
Honduras	12.00	6.10	61.60	0.51	N/A
Latin America and the Caribbean[1]	14.40	6.35	66.05	0.45	24,218.24
Low-Middle-Income Economies[2]	14.90	7.27	68.53	0.47	41,954.80
World	15.67	6.33	63.11	0.41	40,552.18

Tax Administration	Tax Staff	Payer to Staff	Function	LTU	Customs
	Tax staff per 1000 population	Number of tax payers per tax staff	Functional Organization	Large Taxpayer Unit	Customs and Tax Administration Combined
Honduras	N/A	N/A	1.00	1.00	1.00
Latin America and the Caribbean[1]	0.44	389	0.82	0.81	0.31
Low-Middle-Income Economies[2]	0.48	260	0.93	0.88	0.31
World	0.76	437	0.89	0.85	0.29

Footnotes:

1. LAC countries include: Anguilla, Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay and Venezuela.
2. Low-Middle-Income Countries include: Dominican Republic, Ecuador, Egypt, Arab Rep., El Salvador, Fiji, Georgia, Guatemala, Guyana, Honduras, Indonesia, Iran, Islamic Rep., Iraq, Jamaica, Jordan, Kiribati, Kosovo, Lesotho, Macedonia, FYR, Maldives, Marshall Islands, Micronesia, Moldova, Morocco, Namibia, Nicaragua, Paraguay, Peru, Philippines, Samoa (Western), Sri Lanka, Suriname, Swaziland, Syrian Arab Republic, Thailand, Tonga, Tunisia, Turkmenistan, Ukraine and Vanuatu.

Honduras *Highlights*

Currency: Honduran Lempiras (HNL)

Foreign exchange control: The exchange rate is subject to a "crawling band" regime, with the rate determined daily in foreign exchange auctions. The Honduras Central Bank is responsible for the exchange auctions and for setting monetary policies.

Accounting principles/financial statements: IAS. Financial statements must be prepared annually.

Principal business entities: These are the corporation, limited liability company, general and limited partnership and branch of a foreign company.

Corporate taxation:

Residence – A company is resident in Honduras if is incorporated according the Honduran Commercial Code.

Basis – Resident companies are taxed on worldwide income; nonresident companies are taxed only on Honduran-source income.

Taxable income – Taxable income for corporate income tax purposes includes all income and gains that increase the taxpayer's net worth, less deductions for expenses related to the production of income.

Taxation of dividends – Dividends are not subject to tax and are not included in taxable income.

Capital gains – Capital gains are taxed as ordinary income at a rate of 10%.

Losses – Tax losses generally may not be carried forward or back. However, tax losses for manufacturing, agribusiness and tourist companies may be carried forward for 3 years.

Rate – The rate is 25%, plus a 5% temporary social contribution tax.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – No

Participation exemption – No

Holding company regime – No

Incentives – The tourism sector and companies operating in free zones are subject to favourable tax treatment, as are mining companies.

Withholding tax:

Dividends – Dividends are not subject to withholding tax.

Interest – Interest paid to a nonresident is subject to a 5% withholding tax.

Royalties – Royalties paid to a nonresident are subject to a 25% withholding tax.

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – Real property tax is levied annually by the local governments, with the rates depending on the location of the property.

Social security – Employers must pay 7% of salaries for state welfare.

Stamp duty – No

Transfer tax – A transfer tax equal to 1.5% of the transfer value is levied.

Other – District and municipal governments impose various levies.

Anti-avoidance rules:

Transfer pricing – No

Thin capitalisation – While there are no thin capitalisation rules per se, interest paid to shareholders is not deductible for corporation tax purposes.

Controlled foreign companies – No

Other – No

Disclosure requirements – No

Administration and compliance:

Tax year – The tax year corresponds to the calendar year, but a different accounting year may be authorised by the Honduran tax authorities.

Consolidated returns – Consolidated returns are not permitted; each company must file a separate return.

Filing requirements – The tax return and payment must be made within the first 4 months of the year following the tax year. Alternatively, 3 advance payments may be made during the tax year (in June, September and December), with any balance due paid before 30 April of the year following the tax year. Excess tax paid will be credited against the next fiscal period's tax liability.

Penalties – Various penalties apply for failure to file a tax return.

Rulings – No

Personal taxation:

Basis – Residents are taxed on worldwide income; nonresidents are taxed only on Honduran-source income. For 2009, the ceiling for tax-exempt income is HNL 110,000, plus HNL 40,000 of medical expenses without supporting documents.

Residence – An individual is resident in Honduras if he/she lives in the country and, in the case of foreigners, if he/she obtains the required permit from the immigration office.

Filing status – Married couples are not required to file a joint return.

Taxable income – Taxable income is comprised of income earned from employment, the carrying on of a business or profession, investment income and any other gains.

Capital gains – Capital gains are generally subject to a 10% tax.

Deductions and allowances – Individual taxpayers are entitled to various deductions, but no personal allowances are granted.

Rates – Rates are progressive up to 25%.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – Real property tax is levied annually by the local governments, with the rates depending on the location of the property.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – An employee must contribute 3.5% of his/her salary to social security.

Administration and compliance:

Tax year – Calendar year

Filing and payment – The personal income tax return must be filed by 30 April of the year following the tax year and any tax due must be paid at that time.

Penalties – Penalties for nonpayment of tax range from 5%-60% of the tax due.

Value added tax:

Taxable transactions – Honduras imposes a sales tax on the provision of goods and services.

Rates – The rate is 12% on goods and services and 15% on alcoholic beverages and tobacco. Farm produce, basic food products and pharmaceuticals are exempt.

Registration – No

Filing and payment – The sales tax return must be filed by the 10th of each month.

Source of tax law: Tax Code

Tax treaties: Honduras has a tax information exchange treaty with the U.S.

Tax authorities: Direccion Ejecutiva de Ingresos (Executive Directorate of Revenue)

International organisations: WTO, World Customs Organisation

Jamaica

Summary and Conclusion

- Jamaica provides an example of a country that has an exceptionally high revenue productivity given its economic, social, institutional and demographic characteristics.
- Over the 2001 to 2010 period, Jamaica increased tax revenue by 2.1 percent of GDP through efforts to strengthen tax administration and modestly increase rates, broaden bases and streamline tax provisions.
- Given the high level of revenue yield, reforms focused on improving the effectiveness of tax administration, reducing compliance costs for business and lowering statutory tax rates are likely to have the greatest impact on supporting Jamaica's revenue mobilization, debt reduction and economic growth needs.
- Recent comparative data suggests that Jamaica's revenue effort from VAT and CIT is above that of regional and income-group comparator countries while PIT revenue effort is below that of regional and income group comparator countries on average.
- Jamaica's CIT rate and VAT rates are above income group and regional comparator countries on average but its personal income tax rate is below that of comparator group averages.
- CIT productivity is about double comparator group averages and VAT productivity is broadly in line with comparator group averages, while PIT productivity measures are generally below that of comparator country measures.

- Two areas for further investigation are proposed:
  - An examination of possible revenue neutral tax reforms to improve the economic efficiency of the Jamaican tax system.
  - An examination of measures to streamline the tax administration, to reduce compliance and administration costs and to maintain the yield of the current tax system.

Major Developments and Features of Current Tax System

Evolution of Revenue

Over the period 2001 to 2010, tax revenue in Jamaica increased by 2.1 percent of GDP primarily through improved yields from income taxes.

- Income tax revenue effort increased by 1.0 percent of GDP over the period.
- Revenue effort from taxes on goods and services decreased by 0.3 percent of GDP.
- Revenue effort from taxes on international trade increased by 0.1 percent of GDP.

Jamaica Government Current Revenue
(% of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Taxes on Income & Profits	8.3%	8.1%	4.7%	10.9%	10.4%	10.5%	11.2%	11.6%	10.7%	9.3%
Property Taxes	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%
Taxes on Goods and Services	9.0%	9.2%	10.1%	8.9%	8.9%	9.0%	9.1%	9.2%	8.8%	8.7%
Taxes on International Trade	2.0%	2.1%	2.5%	2.4%	2.4%	2.3%	2.3%	2.2%	1.7%	1.9%
Total Tax Revenue	**21.2%**	**21.3%**	**23.5%**	**23.6%**	**22.8%**	**23.2%**	**23.9%**	**24.0%**	**23.6%**	**23.3%**

Source: IMF GFS Database, Jamaica Ministry of Finance

Summary of Reforms

Over the 2001 to 2010 period, Jamaica's revenue mobilization efforts focused on mobilizing needed revenue through incremental policy reforms and by strengthening tax administration aimed at collecting arrears and improving voluntary compliance.

Highlights of tax reforms over the last decade include:

- Expand the GCT base to most goods and services (2003);
- Increase the basic personal exemption, simplify the estate tax and property tax regime, increase the GCT to 16.5%, increase the GCT threshold to reduce the number of taxpayers by 6,900, reform taxation of the gaming industry and simplify the CIT (2005);
- Increased GCT from 16.5% to 17.5%, increased middle income tax rate, introduced advanced GCT payment on imports, introduced ad valorem excise tax (2009); and
- Initial steps toward a comprehensive reform of tax incentives, including a freeze on discretionary tax waivers and the granting of new tax holidays (2010).

Administrative measures included:

- Reorganization of tax administration along functional lines and introduction of an integrated tax administration system (2004);
- Introduction of arrears clearance program, strengthening of audit program and review of assessment and return filing procedures (2005);
- Continued strengthening of tax administration through improved taxpayer services, improved electronic payments and filing, and focus on collection of arrears (2007); and
- Tax amnesty program to address arrears of 6 percent of GDP introduced (2008).
- Effective May 1, 2011 Tax Administration Jamaica (TAJ) was established through the consolidation of three (3) Tax Departments, namely Inland Revenue Department, Taxpayer Audit and Assessment Department and the Tax Administration Services Department.

Tax System Profile (2008-09)

The attached tables provide a high-level profile of Jamaica's tax system as of fiscal year 2008/09 and compare it with the Latin America and Caribbean Region (LAC), other lower-middle-income countries, and the rest of the world. The data in this section is from USAID's Collecting Taxes database. The most recent year for comparative data is the 2008/09 fiscal year. Country specific data and reforms through 2010 are referenced in the previous sections.

Jamaica's "overall tax effort"—the ratio of actual tax collections to its estimated maximum revenue capacity given its economic, social, institutional and demographic characteristics—is 95.0 percent which is almost 18 percentage points higher than the average overall tax effort for lower-middle-income countries of 63.2 percent. [14] Such a large divergence between Jamaica's overall tax effort and that of the comparator income group is a reflection of the high level of revenue required and mobilized by Jamaica to address its high level of debt and its social and infrastructure investment priorities.

Revenue Effort

- "Revenue Effort" provides a measure of the amount of revenue from income and sales taxes that a government collects as a share of GDP.
- Jamaica's overall tax revenue effort is 24.3 percent of GDP - about 4 percentage points above that of regional and income group comparator countries.
- Jamaica's revenue effort from personal income tax is about half that of the LAC regional average and the income group average, and well below the world average.
- Corporate income tax revenue effort, at 9.6 percent of GDP, is more than double the LAC regional average of 3.9 percent and income group and world averages near 3.4 percent.
- The revenue effort from VAT is modestly above that of the regional, income group, and world averages.

Tax Structure

- Jamaica's corporate income tax rate, at 33.3 percent, is about 5 percentage points higher than the regional average and about 8 percentage points above income group and world averages.
- The maximum PIT rate in Jamaica, at 25 percent, is about double that of regional, income group and world averages.
- The VAT rate, at 16.5 percent, is modestly above regional, income group and world averages, which are in the 14.5 to 16 percent range.

Revenue Productivity

- "Revenue productivity" is the portion of GDP of revenue that is mobilized for each point of tax rate.
- Corporate income tax productivity, at 0.29 percent of GDP of revenue for each percentage point of tax rate, is about double regional, income group and world averages, at 0.14.
- Personal income tax productivity, at 0.05, is modestly below that of the regional average but about half that of income group and about one-third of world averages.
    - ***If personal income tax productivity were at the level of the low-income group average, Jamaica would yield an additional 0.75 percent of GDP of Revenue.***
- Jamaica's VAT productivity, at 0.46, is broadly in line with regional and income group averages and modestly above world averages. On the contrary, VAT gross compliance ratio for Jamaica is well below that of comparator country averages.

Tax Administration Structure and Efficiency

- Effective May 1, 2011 Tax Administration Jamaica (TAJ) was established through the consolidation of three (3) Tax Departments, namely Inland Revenue Department, Taxpayer Audit and Assessment Department and the Tax Administration Services Department.
- Tax administration in Jamaica is organized along functional lines[15] and segmentation of taxpayers, including a Large Tax Payer Unit.

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[14] See Revenue Mobilization in Developing Countries, SM//11/21 (International Monetary Fund, 2011, pp.60-63).

[15] Tax administrations are generally organized by type of tax or by function. Tax-type organizations may have a VAT Dept., a Sales Tax Dept., a Personal Income Tax Dept., and a Corporate Income Tax Dept. Tax

- No information is available in the Collecting Taxes Database on tax staff per 1000 population and number of taxpayers per tax staff.

Taxpayer Burden and Corruption Evidence

- Enterprise surveys by WB indicate that the percentage of Jamaica business taxpayers “expected to give gifts in meeting with tax officials” is 4.88 percent, which is below the LAC average of 6.23 percent and the world average of 16.63.

- The WB Doing Business survey estimates that the average time required for Paying Taxes by a medium-sized company in Jamaica amounted to 414 hours per year in early 2010 – somewhat higher than the average of 385 hours for other LAC region countries and unchanged from the time estimated for Jamaica in 2008.

administrations organized along functional lines, however, will have units responsible for registration, tax payer services, return and payment processing, collections, audit, and objections and appeals in addition to support units responsible for Human Resources, Information Technology, Corporate Planning, Budgeting, Performance Monitoring and Evaluation and Internal Audit. All or most domestic taxes will be administered within these functional units.

ANNEX 1: Jamaica's Collecting Taxes Indicators

Total Tax Revenue	TAXY
	Tax Revenue as % of GDP
Jamaica	24.3
Latin America and the Caribbean[1]	20.3
Low-Middle-Income Economies[2]	19.5
World	19.8

Company Income Tax	CITR	CITY	CITPROD
	Corporate Tax Rate	Revenue as % GDP	Revenue Productivity
Jamaica	33.30	9.60	0.29
Latin America and the Caribbean[1]	28.69	3.86	0.14
Low-Middle-Income Economies[2]	24.68	3.42	0.14
World	25.32	3.33	0.14

Income Taxes on People	PITMINR	PITMINL	PITMAXR	PITMAXL
	Minimum Tax Rate	Minimum Income Level (Multiples of GDPpc)	Maximum Tax Rate	Maximum Income Level (Multiple of GDPpc)
Jamaica	25.00	0.52	25.00	0.52
Latin America and the Caribbean[1]	13.49	1.81	29.22	8.53
Low-Middle-Income Economies[2]	11.35	1.28	26.76	10.36
World	11.69	0.86	29.63	9.78

Income Taxes on People	PITY	PITPROD	SSR	WEDGE
	Revenue as % GDP	Revenue Productivity	Mandatory Combined Social Contribution Rates	Combined Rate of Personal and Labors Taxation
Jamaica	1.30	0.05	5.00	17.00
Latin America and the Caribbean[1]	2.10	0.07	16.74	18.12
Low-Middle-Income Economies[2]	2.48	0.11	16.87	19.98
World	3.36	0.13	16.16	20.61

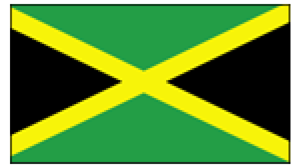
Value Added Tax	VATR	VATY	VATGCR	VATPROD	THRESHOLD
	VAT rate	Revenue as % GDP	Gross Compliance Ratio	Revenue Productivity	Mandatory registration/ filing (annual turnover in USD)
Jamaica	16.50	7.60	48.20	0.46	39,552.00
Latin America and the Caribbean[1]	14.40	6.35	66.05	0.45	24,218.24
Low-Middle-Income Economies[2]	14.90	7.27	68.53	0.47	41,954.80
World	15.67	6.33	63.11	0.41	40,552.18

Tax Administration	Tax Staff	Payer to Staff	Function	LTU	Customs
	Tax staff per 1000 population	Number of tax payers per tax staff	Functional Organization	Large Taxpayer Unit	Customs and Tax Administration Combined
Jamaica	N/A	N/A	1.00	1.00	0.00
Latin America and the Caribbean[1]	0.44	389	0.82	0.81	0.31
Low-Middle-Income Economies[2]	0.48	260	0.93	0.88	0.31
World	0.76	437	0.89	0.85	0.29

Footnotes:

1. LAC countries include: Anguilla, Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay and Venezuela.
2. Low-Middle-Income Countries include: Dominican Republic, Ecuador, Egypt, Arab Rep., El Salvador, Fiji, Georgia, Guatemala, Guyana, Honduras, Indonesia, Iran, Islamic Rep., Iraq, Jamaica, Jordan, Kiribati, Kosovo, Lesotho, Macedonia, FYR, Maldives, Marshall Islands, Micronesia, Moldova, Morocco, Namibia, Nicaragua, Paraguay, Peru, Philippines, Samoa (Western), Sri Lanka, Suriname, Swaziland, Syrian Arab Republic, Thailand, Tonga, Tunisia, Turkmenistan, Ukraine and Vanuatu.

ANNEX 2: Jamaica Tax Highlights



Jamaica Highlights

Currency: Jamaican Dollar (JMD)

Foreign exchange control: No, and there are no restrictions on the import or export of capital. Both residents and nonresidents can hold bank accounts in the major currencies, e.g. U.S. dollar, Euro, pounds sterling and Canadian dollar.

Accounting principles/financial statements: IAS/IFRS. Financial statements must be prepared annually.

Principal business entities: These are the public and private limited liability company, partnership, sole proprietorship and branch of a foreign corporation.

Corporate taxation:

Residence – A corporation established under the Companies Act of Jamaica is normally deemed to be resident in Jamaica. This also applies to branch operations of foreign corporations.

Basis – Residents are taxed on worldwide income. Nonresidents are taxed on their Jamaican-source income. Branches are taxed on the same basis as subsidiaries.

Taxable income – Corporation tax is imposed on a company's profits, which consist of business/trading income and interest, but excluding capital gains. Normal business expenses may be deducted in computing income.

Taxation of dividends – Dividends paid by a company are generally subject to withholding tax at 33⅓% if paid to a corporate body. Subsidiaries of resident companies that are incorporated in overseas territories are taxed on dividends, received in Jamaica. No income tax is levied on dividends paid by resident companies (whether or not listed on the stock exchange); the exemption does not apply to preference dividends or dividends paid to a nonresident, however.

Capital gains – Capital gains are generally exempt. However, where circumstances indicate that the gain should be treated as business income, the exemption will not apply.

Losses – Losses may be carried forward indefinitely. The carryback of losses is not permitted.

Rate – The general rate is 33⅓%, which applies to both subsidiaries and branches. Building societies are taxed at 30% and life insurance companies pay tax at 15% of net investment income. Life insurance companies also pay 1.5% on premium income.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – A foreign tax credit for Commonwealth taxes paid is granted at 50% of the applicable Jamaican income tax rate for residents and at 50% of the Commonwealth rate for nonresidents or 50% of the Jamaican income tax rate where the Commonwealth rate is higher. (Special rules apply for tax paid to the U.K.) The credit is available only for taxes paid to Commonwealth jurisdictions with which Jamaica does not have a tax treaty.

Participation exemption – No

Holding company regime – No

Incentives – Special tax regimes apply for insurance, venture capital and international finance companies, and there are incentives for taxpayers operating in free zones or investing in the manufacturing, tourism, petroleum refining and agricultural industries.

Withholding tax:

Dividends – Dividends are taxed at 25% if received by individuals and 33⅓% if received by a corporate body. Exemptions apply to dividends paid by a company listed on the Jamaican stock exchange to an individual recipient and on franked (i.e. redistributed) dividends received by a company and its shareholders. Rates on payments to nonresidents may be reduced under a tax treaty.

Interest – Interest paid to an individual is subject to a 25% withholding tax and that paid to a company is 33 1/3%. The rate may be reduced under a tax treaty.

Royalties – Although the rates are 25% (individuals) and 33⅓% (companies) on the gross amount before any applicable tax treaty reduction, a nonresident may file a return of net income, claiming related deductions and receive a refund on excess tax paid.

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No

Payroll tax – Compulsory statutory contributions based on salary include social security (see below under "Social security"), the National Housing Trust (3%), an education tax (3%) and the Human Employment and Resource Trust contribution (3%).

Real property tax – An annual property tax (payable by the "person in possession") is levied at a flat rate of JMD 1,000 on the unimproved value up to JMD 300,000 and at 0.75% over JMD 300,000.

Social security – The employer and employee each contribute 2.5% (5% for the

self-employed) based on the first JMD 1 million annually of the employee's earnings.
Stamp duty – The stamp duty is 3% on the transfer of real property and 1% on the transfer of shares, based on the sales value.

Transfer tax – A 4% tax is imposed on the sales value of real property and shares. The sale of shares on the local stock exchange is exempt from transfer tax.

Other – A flat tax ranging from JMD 1,000 to JMD 35,000 is levied annually on companies and certain other listed entities on the basis of the aggregate value of their assets.

Anti-avoidance rules:

Transfer pricing – Limited transfer pricing concepts apply where there is a close connection between a resident and a nonresident. The Commissioner is authorised to assess profits in "connected" party transactions (i.e. treating the resident as an agent of the nonresident). Nonresidents may also be subject to tax on a percentage of turnover if the actual profits of the nonresident cannot be determined.

Thin capitalisation – No

Controlled foreign companies – No

Other – Residents continue to be subject to tax on income generated from assets transferred abroad if the resident has the right (even if shared) to enjoy such income.

Disclosure requirements – No

Administration and compliance:

Tax year – The tax year is either the calendar year or is based on the annual financial statements (which fall on any date in the calendar year).

Consolidated returns – Consolidated returns are not permitted; each company must file a separate return.

Filing requirements – Returns are due by 15 March following the year of assessment.

Penalties – In addition to interest for late payments, penalties may include fines or imprisonment.

Rulings – No

Personal taxation:

Basis – Jamaican residents are taxed on their worldwide income in excess of JMD 441,168. Nonresidents are taxed only on Jamaican-source income.

Residence – An individual is resident if he/she spends more than 183 days in Jamaica in any year of assessment.

Filing status – Married couples may elect to be assessed in the husband's name.

Taxable income – Income arising from profits and gains from a trade, business, profession, employment or vocation is subject to tax, with employment income taxed under a Pay-As-You-Earn system.

Capital gains – Capital gains are generally exempt. However, the exemption will not apply where circumstances indicate that the gain should be treated as business income.

Deductions and allowances – Deductions and allowances include contributions to an approved pension fund (limited to 10% of salary), National Insurance Scheme, and donations to an approved charitable organization (limited to 5% of statutory income).

Rates – A flat rate of 25% applies (for Jamaican residents, the rate is imposed on income in excess of JMD 441,168).

Other taxes on individuals:

Capital duty – No

Stamp duty – The stamp duty is 3% on the transfer of real property and 1% on the transfer of shares, based, in both cases, on the sales value.

Capital acquisitions tax – No, but a transfer tax may apply in certain instances.

Real property tax – An annual property tax (payable by the "person in possession") is levied at a flat rate of JMD 1,000 for unimproved value up to JMD 300,000 and at 0.75% over JMD 300,000.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – The employer and employee each contribute 2.5% (5% for the self-employed) based on the first JMD 1 million annually of the employee's earnings, plus a nominal flat weekly contribution. A prorated monthly amount may also be paid.

Administration and compliance:

Tax year – Calendar year

Filing and payment – Jamaica operates a PAYE system; however, persons on the PAYE system normally are not required to file an income tax return even if the income exceeds the tax threshold of JMD 441,168.

Penalties – In addition to interest for late payments, penalties may include fines or imprisonment.

Value added tax:

Taxable transactions – General Consumption Tax (GCT) is levied on certain goods, services and imports.

Rates – The standard rate is 17.5%, with some items (generally basic foods) exempt or zero-rated.

Registration – Registration is mandatory where annual turnover exceeds JMD 3 million.

Filing and payment – For imports, GCT is due when the goods "enter" into Jamaica under the Customs Act. Otherwise, GCT generally is due at the earlier of the supplier's invoice being issued, payment or upon the rendering of services or availability of goods.

Source of tax law: Income Tax Act, General Consumption Tax Act, Contractors' Levy Act, Stamp Duty Act and Transfer Tax Act

Tax treaties: Jamaica has concluded 12 tax treaties in addition to the Caricom income tax treaty.

Tax authorities: Taxpayer Audit and Assessment Department

International organisations: IMF, WTO, Caricom, World Bank

Mexico

Summary and Conclusion

- Mexico provides an example of a country that is facing a medium-term deterioration in its structural revenue position due to the expected decline in oil production and has undertaken modest steps to stabilize its non-oil revenues through improved tax administration and tax rate increases.
- Over the 2001 to 2010 period, Mexico's tax revenue decreased by 0.9 percent of GDP.
- Of the three main tax handles discussed in this note—Personal Income Tax, Corporate Income Tax and VAT—reforms focused on improving Corporate Income Tax and VAT administration and broadening tax bases are likely to have the greatest impact on immediately improving Mexico's revenue mobilization efforts.
- Continued focus on improving administration and tax policy, particularly for corporate taxation and VAT, could contribute an additional 6.5 percent of GDP in revenue.
- Recent comparative data suggests that Mexico's revenue effort from CIT and VAT are significantly below that of regional and income-group comparator countries on average.
- Mexico's corporate income tax rate is similar to regional comparator countries and is modestly above income group and world average.
- The personal income tax rate is broadly in line with that of comparator group averages but is applicable to lower levels of per capita income.
- The VAT rate is broadly in line with that of comparator group countries on average.
- CIT and VAT productivity is significantly below comparator group averages, while PIT productivity is above that of comparator country measures.

- Two areas for further investigation are proposed:
    - An examination of incentives and structure of the CIT and VAT with a particular focus on those measures that are narrowing the tax bases.
    - An examination of measures to streamline and improve the administration of CIT and VAT to simplify and strengthen tax administration, reduce compliance costs for business, and improve revenue mobilization and economic efficiency.

Major Developments and Features of Current Tax System

Evolution of Revenue

Over the period 2001 to 2010, Mexico's revenue effort from major tax handles decreased by 0.9 percent of GDP with declines in taxes on goods and services and international trade being offset by modest increases in income taxes.

- Income tax revenue effort increased 0.6 percent of GDP over the period.
- Revenue effort from taxes on goods and services decreased by 1.2 percent of GDP.
- Revenue effort from taxes on international trade decreased modestly by 0.3 percent of GDP.

Mexico Government Current Revenue
(% of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Taxes on Income & Profits	4.6%	4.6%	4.4%	4.4%	4.2%	4.3%	4.7%	5.2%	5.0%	5.2%
Taxes on Goods and Services	5.1%	5.1%	4.9%	4.7%	4.0%	3.6%	3.6%	2.4%	3.9%	3.9%
Taxes on International Trade	0.5%	0.4%	0.4%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%
Other Taxes	0.3%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	0.3%
Total Tax Revenue	**10.5%**	**10.6%**	**10.1%**	**9.7%**	**8.8%**	**8.6%**	**8.9%**	**8.2%**	**9.6%**	**9.6%**

Source: Mexico Ministry of Finance

Summary of Reforms

Mexico's reform efforts have focused on gradually putting in place a transformation of its revenue mobilization to strengthen its structural revenue position in light of future declines in oil revenues. This has involved increasing tax rates on major revenue handles and improving tax administration.

In 2007, Mexico undertook a major tax reform intended to broaden the tax base for non-oil taxes and make the budget less reliant on oil revenues. The reforms included:

- The minimum tax on assets was replaced with a minimum tax on gross revenue;
- A creditable tax on cash deposits greater than $2,500 was introduced; and
- The fiscal regime for PEMEX was changed to reduce its tax burden and to free up working capital to invest in research and modernization.

In 2010[16], Mexico continued the efforts to increase tax revenue by:

- Increasing the VAT rate by 1% to 16%;
- Raising the CIT and top PIT rates from 28% to 30% and increasing agricultural income tax from 19% to 21%;
- Increasing excise taxes; and
- Increasing the cash deposits tax from 2% to 3%.

Over the 2003 to 2007 period, the Tax Administration Service (SAT) undertook efforts to modernize and transform tax administration and revenue collection supported by a loan from the World Bank. During this period, the number of registered corporate taxpayers increased by about 170,000 and the number of registered individual taxpayers increased by about 12 million. Moreover, improved business processes and procedures helped to reduce the cost of collection by 0.0046 pesos per peso collected and the perception of corruption within SAT reduced from 50% to 25% over the period. Subsequent to 2007, SAT continued efforts to improve tax administration and revenue collection.

[16] Rate changes are not reflected in Annex 1: Mexico's Collecting Taxes Indicators because the information in the database predates the 2010 reform.

Tax System Profile (2008-09)

The attached tables provide a high-level profile of Mexico's tax system as of fiscal year 2008/09 and compare it with the Latin America and Caribbean Region (LAC), other low-middle-income countries, and the rest of the world. The data in this section is from USAID's Collecting Taxes database which predates the 2010 reforms and do not reflect the new figures. The most recent year for comparative data is the 2008/09 fiscal year. Country specific data and reforms through 2010 are referenced in the previous sections.

Mexico's "overall tax effort"—the ratio of actual tax collections to its estimated maximum revenue capacity given its economic, social, institutional and demographic characteristics—is not reported by the IMF but is likely significantly below the average for upper-middle-income countries of 77.2 percent given its reliance on natural resource revenue. [17]

Revenue Effort

- "Revenue Effort" provides a measure of the amount of revenue from income and sales taxes that a government collects as a share of GDP.
- Mexico's overall tax revenue effort is 9.6 percent of GDP – about half that of regional and income group comparator countries, reflecting the importance of natural resource revenues in supporting the government's expenditure priorities.
- Mexico's revenue effort from personal income tax at 4.5 percent of GDP is above that of the LAC regional, income group, and world averages.
- Reflecting the significant reliance on natural resource revenue, corporate income tax revenue effort is at 0.4 percent of GDP.
- The revenue effort from VAT is about one-half that of comparator group averages reflecting a large number of exemptions and weak tax administration.

Tax Structure

- Mexico's corporate income tax rate, at 28 percent, is broadly in line with the regional average but modestly above that of income group and world averages.
- The maximum PIT rate in Mexico, at 28 percent, is broadly in line with that of regional, income group and world averages.
- The VAT rate, at 15 percent, is broadly consistent with regional, income group and world averages, which are in the 14.5 to 16 percent range.

Revenue Productivity

- "Revenue productivity" is measured as the portion of GDP that is mobilized for each point of tax rate.
- Corporate income tax productivity, at 0.01 percent of GDP of revenue for each percentage point of tax rate, is significantly below regional, income group and world averages, at 0.14.
    - ***If Mexico could raise the productivity of its corporate income tax to the prevailing average in the region or income group through base broadening and improved tax administration, this would increase tax revenues by an additional 3.5 percent of GDP.***
- Personal income tax productivity, at 0.17, is more than double that of the regional average and modestly above that of income group and world averages.
- VAT productivity, at 0.23 is about half that of regional, income group and world averages. Similarly, VAT gross compliance ratio for Mexico as about one-third that of comparator country averages.

[17] See Revenue Mobilization in Developing Countries, SM//11/21 (International Monetary Fund, 2011, pp.60-63).

- ***If Mexico could raise the productivity of its VAT to the prevailing average in the region or income group through the removal of exemptions and special privileges and improved tax administration, this would increase tax revenues by an additional 3.0 percent of GDP.***

Tax Administration Structure and Efficiency

- The SAT is responsible for administration of taxes in Mexico. SAT is also responsible for administration of taxes on imports.
- Tax administration in Mexico is organized along functional lines[18] and segmentation of taxpayers, including a Large Tax Payer Unit (LTU).
- Regional and income group comparator countries employ significantly more tax administrators per capita than Mexico.
- Moreover, the number of registered taxpayers per tax administer is significantly more than regional and income group comparator countries on average.

Taxpayer Burden and Corruption Evidence

- Enterprise surveys by WB indicate that the percentage of Mexico business taxpayers “expected to give gifts in meeting with tax officials” is 9.59 percent, which is above the LAC average of 7.47 percent and below the world average of 16.73.

- The WB Doing Business survey estimates that the average time required for Paying Taxes by a medium-sized company in Mexico amounted to 404 hours per year in early 2011 – which is above the average of 385 hours for other LAC region countries but a significant improvement from Mexico’s average of 552 hours in 2006.

[18] Tax administrations are generally organized by type of tax or by function. Tax-type organizations may have a VAT Dept., a Sales Tax Dept., a Personal Income Tax Dept., and a Corporate Income Tax Dept. Tax administrations organized along functional lines, however, will have units responsible for registration, tax payer services, return and payment processing, collections, audit, and objections and appeals in addition to support units responsible for Human Resources, Information Technology, Corporate Planning, Budgeting, Performance Monitoring and Evaluation and Internal Audit. All or most domestic taxes will be administered within these functional units.

ANNEX 1: Mexico's Collecting Taxes Indicators

Total Tax Revenue	TAXY
	Tax Revenue as % of GDP
Mexico	9.6
Latin America and the Caribbean[1]	20.3
Upper-Middle-Income Economies[2]	21.6
World	19.8

Company Income Tax	CITR	CITY	CITPROD
	Tax Rate	Revenue as % GDP	Revenue Productivity
Mexico	28.00	0.40	0.01
Latin America and the Caribbean[1]	28.69	3.86	0.14
Upper-Middle-Income Economies[2]	23.69	3.44	0.14
World	25.32	3.33	0.14

Income Taxes on People	PITMINR	PITMINL	PITMAXR	PITMAXL
	Minimum Tax Rate	Minimum Income Level (Multiples of GDPpc)	Maximum Tax Rate	Maximum Income Level (Multiple of GDPpc)
Mexico	3.00	0.05	28.00	0.94
Latin America and the Caribbean[1]	13.49	1.81	29.22	8.53
Upper-Middle-Income Economies[2]	12.61	1.45	26.40	4.34
World	11.69	0.86	29.63	9.78

Income Taxes on People	PITY	PITPROD	SSR	WEDGE
	Revenue as % GDP	Revenue Productivity	Mandatory Combined Social Contribution Rates	Combined Rate of Personal and Labors Taxation
Mexico	4.50	0.17	8.22	11.10
Latin America and the Caribbean[1]	2.10	0.07	16.74	18.12
Upper-Middle-Income Economies[2]	3.37	0.15	20.29	25.25
World	3.36	0.13	16.16	20.61

Value Added Tax	VATR	VATY	VATGCR	VATPROD	THRESHOLD
	VAT rate	Revenue as % GDP	Gross Compliance Ratio	Revenue Productivity	Mandatory registration/ filing (annual turnover in USD)
Mexico	15.00	3.40	24.60	0.23	N/A
Latin America and the Caribbean[1]	14.40	6.35	66.05	0.45	24,218.24
Upper-Middle-Income Economies[2]	16.28	6.81	68.24	0.44	39,801.68
World	15.67	6.33	63.11	0.41	40,552.18

Tax Administration	Tax Staff	Payer to Staff	Function	LTU	Customs
	Tax staff per 1000 population	Number of tax payers per tax staff	Functional Organization	Large Taxpayer Unit	Customs and Tax Administration Combined
Mexico	0.33	740	1.00	1.00	1.00
Latin America and the Caribbean[1]	0.44	389	0.82	0.81	0.31
Upper-Middle-Income Economies[2]	0.86	418	0.89	0.85	0.30
World	0.76	437	0.89	0.85	0.29

Footnotes:

1. LAC countries include: Anguilla, Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay and Venezuela.
2. Upper-Middle-Income Countries include: Anguilla, Argentina, Belize, Botswana, Brazil, Bulgaria, Chile, Cook Islands, Costa Rica, Croatia, Dominica, Equatorial Guinea, Gabon, Grenada, Hungary, Kazakhstan, Latvia, Lebanon, Libya, Lithuania, Malaysia, Mauritius, Mexico, Montenegro, Oman, Palau, Panama, Poland, Romania, Russian Federation, Serbia, Seychelles, Slovak Republic, South Africa, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Turkey, Uruguay and Venezuela

ANNEX 2: Mexico Tax Highlights

Mexico Highlights

Currency: Mexican Peso (MXN)

Foreign exchange control: None, and no restrictions are imposed on the import or export of capital. Repatriation payments can be made in any currency. Both residents and nonresidents can hold bank accounts in any currency in any part of the world; however, for some accounts located in Mexico but kept in a foreign currency, the currency must be the U.S. dollar.

Accounting principles/financial statements: Mexican GAAP (with increasing conformity to international standards) applies. Financial statements must be prepared annually.

Principal business entities: These are the per se corporation (SA), limited liability company (SRL) and branch of a foreign corporation.

Corporate taxation:

Residence – An entity is resident if it is managed and controlled in Mexico.

Basis – Residents are taxed on worldwide income; nonresidents are taxed on Mexican-source income. Foreign-source income derived by residents is subject to tax in the same way as Mexican-source income. Branches are taxed the same as subsidiaries.

Taxable income – Corporate tax is imposed on a company's profits, which consist of business/trading income, passive income and capital gains. Normal business expenses may be deducted in computing taxable income. Inflationary accounting for tax purposes is applicable to certain concepts of revenue and expenses.

Taxation of dividends – Dividends received by a Mexican resident company from another Mexican resident company are exempt from corporate tax. Dividends received from a foreign company are subject to corporate tax in the period the dividends are payable, but a credit for underlying corporate and withholding tax is generally available for foreign tax paid. If dividends are not paid from the "CUFIN account" (i.e. already taxed profits), the payer is required to pay taxes (30% on a gross-up amount).

Capital gains – Mexican entities are not subject to special tax treatment on capital gains and the use of capital losses is restricted in some cases.

Losses – A 10-year carryforward is allowed, subject to applicable inflation adjustments. The carryback of losses is not permitted.

Rate – A 30% rate is applicable to business profits in general.

Surtax – No

Alternative minimum tax – The Flat Tax (IETU), which applies from 1 January 2008, taxes profits determined by reducing the major part of revenue with most expenses and costs (excluding in most cases interest earned or paid, royalties paid or received to or from related parties and salaries (although a portion of salaries is subject to a tax credit)). The tax rate is 17.5% for 2011. IETU operates under a cash flow method.

Foreign tax credit – Foreign tax paid may be credited against Mexican tax on the same profits, but the credit is limited to the amount of Mexican tax payable on the foreign income.

Participation exemption – No

Holding company regime – No

Incentives – Incentives include accelerated depreciation for most investments in fixed assets (some regions may be restricted, such as the metropolitan area of Mexico City, Guadalajara and Monterrey). Special incentives are granted for national cinematographic and theatrical production.

Withholding tax:

Dividends – Mexico does not impose withholding tax on dividends.

Interest – Interest paid to nonresidents is subject to withholding tax at rates ranging from 4.9% (interest paid to a nonresident bank) to a general 30%, and a 40% rate applicable to low-tax-country related parties, unless the rate is reduced under a tax treaty.

Royalties – Royalties paid to nonresidents are subject to a withholding of 30% (patents and trademarks) or 25% (all other royalties and technical assistance), unless reduced under an applicable tax treaty. The leasing of machinery and equipment is considered a royalty in some cases.

Branch remittance tax – Rules similar to the CUFIN rules for dividends apply.

Other taxes on corporations:

Capital duty – No

Payroll tax – Payroll taxes apply at the state and federal level.

Real property tax – The municipal authorities levy "rates" on the ownership of real property. Rates are deductible in calculating corporation tax liability.

Social security – Employer contributions of social security and other related contributions (e.g. housing and retirement) are mandatory, with rates ranging from 15% to 25%, depending on the salary structure of the group of employees.

Stamp duty – No

Transfer tax – A rate between 2% and 5% applies to the transfer of real estate.

Other – While not a tax, mandatory profit sharing rules imply that an entity is obliged to actually distribute 10% of taxed profits among its employees no later than May of the year following that in which the profits were generated. A Cash Deposit Tax is levied on cash deposits on any amount exceeding MXN 15,000 at a rate of 3%, which is creditable against other federal taxes. A special excise tax on production and services (IESPyS) is levied on the alienation and rendering of certain goods and services.

Anti-avoidance rules:

Transfer pricing – Rules similar to the OECD Guidelines apply. APAs are possible.

Thin capitalisation – Thin capitalisation rules apply with a 3:1 debt-to-equity safe harbour ratio for loans granted from abroad by related parties.

Controlled foreign companies – Income is attributed to Mexican tax residents (including resident foreigners) from "controlled" entities having more than 20% of their income represented by passive income (broadly defined) and taxed locally at a rate less than 75% of Mexico's statutory rate. Reporting rules may apply.

Other – A tax audit is mandatory for taxpayers with more than 300 employees, or gross income exceeding MXN 34.8 million or assets exceeding MXN 69.6 million.

Disclosure requirements – External tax auditors have an obligation to disclose on the tax audit report when a taxpayer has entered into a transaction that is not considered viable by the Mexican tax authorities.

Administration and compliance:

Tax year – Calendar year

Consolidated returns – Tax consolidation is optional for income tax and not available for IETU purposes. Deferred income tax under the consolidation regime should be paid after a 5-year period.

Filing requirements – Under the self-assessment regime, advance corporate tax is payable in 12 instalments. The annual tax return must be filed within the first 3 months of the following year (no extensions are available).

From January 2011, individuals and legal entities are obligated to have an advanced electronic signature certificate in effect and maintain electronic accounting records, issuing as proof of their transactions digital bills.

Penalties – Penalties apply for noncompliance.

Rulings – The tax authorities will issue rulings on the tax consequences of actual transactions.

Personal taxation:

Basis – Mexican nationals are taxed on their worldwide income. Nonresidents are taxed on Mexican-source income.

Residence – An individual is considered resident if he/she has a permanent home in Mexico. If an individual has a home in 2 countries, the key factor is the location of his/her centre of vital interests. Mexican nationals are, in principle, considered tax resident, subject to the permanent home and/or the centre-of-vital-interests test.

Filing status – Tax returns are filed individually, regardless of marital status.

Taxable income – Income is taxed, in part, under a schedular system, although some revenue can be mixed to determine taxable income. Profits derived from the carrying on by an individual of a trade or profession generally are taxed in the same way as profits derived by companies. An independent regime for interest earned by individuals applies from 1 January 2011.

Capital gains – Capital gains are generally taxed as income, except that gains derived from the sale of publicly traded securities or the transfer of personal property (other than corporate shares, securities and investments) are exempt.

Deductions and allowances – Subject to certain restrictions, deductions are granted for medical expenses and medical insurance, retirement annuities, mortgage interest, etc. Personal allowances are available to the taxpayer and his/her spouse, children and dependents.

Rates – Rates are progressive to 30%.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – The municipal authorities levy "rates" on the ownership of real property. Rates are deductible in calculating the individual's taxable income applicable to leasing of real property.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – Employed individuals are required to make social security contributions, with the amount based on the individual's salary.

Administration and compliance:

Tax year – Calendar year

Filing and payment – Tax on employment income is withheld by the employer and remitted to the tax authorities; some other types of income, such as income from the provision of services and leasing income, are subject to withholding. Income not subject to withholding is self-assessed; the individual must file a tax return and make prepayments of tax. Final tax is due on 30 April (no extensions are available). See also "Filing requirements" for corporations for electronic requirements in effect January 2011.

Penalties – Penalties apply for noncompliance.

Value added tax:

Taxable transactions – VAT is levied on the sale of goods, leasing and the provision of services, as well as on imports.

Rates – The general VAT rate is 16%, with an 11% rate applicable at the borders and other designated areas and a 0% rate for food, medicine and certain other items.

Registration – All persons must be registered to be able to credit the VAT paid to vendors, suppliers or at the border. Nonresidents that make taxable supplies of goods or services in Mexico also must register.

Filing and payment – VAT filing is monthly, within the first 17 days of the following month.

Source of tax law: Income Tax, Value Added Tax, IETU Laws, Federal Tax Code

Tax treaties: Mexico has around 40 income tax treaties.

Tax authorities: *Servicio de Administración Tributaria* (SAT or Tax Administration Service)

International organisations: OECD, WTO

Nicaragua

Summary and Conclusion

- Nicaragua provides an example of a country that has improved revenue mobilization over the course of the last decade through sustained efforts to strengthen tax administration and implement tax reform, particularly for personal and corporate income taxes.
- Over the 2001 to 2010 period, Nicaragua increased tax revenue by 5.5 percent of GDP, a direct impact of its major tax reform initiatives over the decade.
- Nicaragua's overall tax effort is broadly in line with its income group comparator countries given its economic, social, institutional and demographic characteristics.
- Continued focus on improving administration, particularly for corporate and personal taxation, could mobilize additional revenue.
- Nicaragua's VAT performance in terms of revenue yield and productivity is broadly in line with regional and income group comparator country averages.
- Given data limitations, there is little information on the performance of income taxes. Nevertheless, the rate structure of income taxes in Nicaragua is consistent with regional comparator countries.

- An area of further investigation is a detailed assessment of the revenue outcomes of the CIT and PIT, including an assessment of the revenue cost of exemptions and special privileges.

Major Developments and Features of Current Tax System

Evolution of Revenue

Over the period 2001 to 2010, Nicaragua's tax revenue improved by 5.6 percent with improved revenue effort from all major domestic revenue sources.

- Income tax revenue effort increased 3.7 percent of GDP over the period.
- Revenue effort from taxes on goods and services increased by 3.3 percent of GDP.
- Revenue effort from taxes on international trade decreased modestly by 0.5 percent of GDP[19].

[19] Figures for international trade taxes only available through 2009.

Nicaragua Government Current Revenue
(% of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 P
Taxes on Income & Profits	2.4%	2.8%	4.0%	4.5%	4.8%	5.2%	5.6%	5.8%	6.3%	6.1%
Property Taxes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Taxes on Goods and Services	9.0%	9.5%	10.2%	10.4%	10.8%	11.4%	11.7%	11.2%	10.6%	12.3%
Taxes on International Trade	1.3%	1.1%	1.0%	1.0%	1.1%	1.1%	1.1%	1.0%	0.8%	N/A
Total Tax Revenue	**12.7%**	**13.5%**	**15.2%**	**15.8%**	**16.7%**	**17.7%**	**18.4%**	**18.0%**	**17.7%**	**18.3%**

Source: IMF GFS Database;
P/ IMF Staff Report for the Sixth Review under the ECF arrangement (April 2011)

Summary of Reforms

Tax legislation in Nicaragua has been subject to periodic changes over the years. Since 2001, the country has benefitted from a steady climb in total tax revenue due to several reforms. In the early 2000's, Nicaragua's tax system had little transparency or accountability, and up until November 2005, the country lacked an official Tax Code to rule basic tax concepts. In 2003, the Government of Nicaragua implemented a new reform through the Tax Equity Law, which made substantial modifications to the tax system in place. Most recently, in 2009/2010, the Congress approved a new reform to the Tax Equity Law, which introduced a new minimum payment of 1% tax on gross income, new taxes on interest earned on deposits placed in financial institutions, and raised withholding tax rates.

Over the period, several reforms were introduced to improve tax policy and administration, including:

- Tax Equity Law in 2003 reduced revenue exceptions, raised withholding taxes, simplified the tax system, expanded the tax base, and made the system much more efficient and progressive.
    - Introduced an additional 1 percent surtax on corporate taxes and eliminated accelerated depreciation practices except for export companies; and
    - Elimination of the VAT zero-rating (except for exports).
- Modernization of the Directorate General of Revenue (DGI) by implementing various administrative measures and creating new civil service positions through the 2003 reform.
    - Reorganization of the Large Taxpayer Unit (LTU) in 2003, effectively reducing stop-filers by 20 percent by 2005.
- Introduction of new Tax Code in 2005 to strengthen the administration and give revenue-collecting agencies the power and authority to fully implement the regulation.
- Law of Reforms and Additions Law to 453 (Law 528) in 2005 abolished tax exemptions for the media on imported paper, machinery, and food. Law 528 also ended tax exemptions for certain industries, and created new taxes for casinos.
- Reforms to Tax Code in 2006 expanded the capacity of DGI to monitor taxpayer finances.
- Recent reform in 2009 imposed a new minimum tax on gross income, eliminated exemptions, raised rates in several industries, and provided modifications to past reforms.
    - Raised withholding taxes to 10 percent for dividends, interest earned, and interest received by non-resident persons; and
    - Introduced a 10 percent withholding tax for stock transactions, 1.5 percent tax on agricultural goods, and a 1 percent tax on the sale of goods or services paid with debit/credit card.

Tax System Profile (2008-09)

The attached tables provide a high-level profile of Nicaragua's tax system as of fiscal year 2008/09 and compare it with the Latin America and Caribbean Region (LAC), other low-middle-income countries, and the rest of the world. The data in this section is from USAID's Collecting Taxes database. The most recent year for comparative data is the 2008/09 fiscal year. Country specific data and reforms through 2010 are referenced in the previous sections. ***Please note that the data does not fully reflect the total revenue effort from business and personal income taxes in Nicaragua and requires further investigation.***

Nicaragua's "overall tax effort"—the ratio of actual tax collections to its estimated maximum revenue capacity given its economic, social, institutional and demographic characteristics—is 65.2 percent which is in line and slightly above lower-middle-income countries, whose average is 63.2 percent. [20]

Revenue Effort

- "Revenue Effort" provides a measure of the amount of revenue from income and sales taxes that a government collects as a share of GDP.
- Nicaragua's overall tax revenue effort is 18.0 percent of GDP - about 1.0 percentage point below that of regional and income group comparator countries.
- The revenue effort from VAT at 7.4 percent of GDP is modestly above that of LAC regional, income group, and world averages.
- Nicaragua's revenue effort from personal income tax, at 0.60 percent, is about a quarter that of the LAC regional average and income group average and well below the world average of 3.3 percent.
- Data is not available to calculate the revenue effort of corporate income tax revenue effort, CIT.

Tax Structure

- Nicaragua's corporate income tax rate, at 30 percent, is well above income group and world averages and modestly above the regional average which is 28.7 percent.
- The maximum PIT rate in Nicaragua, at 30 percent, is slightly above that of regional, income group and world averages.
- The tax wedge on labor income is above the regional, income group, and world averages.
- The VAT rate, at 15 percent, is above regional and income group averages, and slightly below the world average of 15.7 percent.

Revenue Productivity

- "Revenue productivity" is measured as the portion of GDP that is mobilized for each point of tax rate.
- VAT productivity, at 0.49, and the VAT gross compliance ration is broadly in line with regional, income group and world averages
- Personal income tax productivity, at 0.02, is about one-third of the regional average and significantly below the income group and world averages which are in the 0.11-0.13 range.
- Data is not available to calculate the revenue productivity of the corporate income tax, CIT.

Tax Administration Structure and Efficiency

- DGI is responsible for administration of taxes in Nicaragua. A separate directorate is responsible for administration of taxes on imports—Directorate General of Customs services (DGA). Both are decentralized bodies of the Ministry of Finance and Public Credit (MHCP).

[20] See Revenue Mobilization in Developing Countries, SM//11/21 (International Monetary Fund, 2011, pp.60-63).

- Tax administration in Nicaragua is organized along functional lines[21] and segmentation of taxpayers into departments, including a LTU.

Taxpayer Burden and Corruption Evidence

- Enterprise surveys by WB indicate that the percentage of Nicaragua business taxpayers "expected to give gifts in meeting with tax officials" is 4.20 percent, which is below the LAC average of 6.23 percent and the world average of 16.63.

- The WB Doing Business survey estimates that the average time required for Paying Taxes by a medium-sized company in Nicaragua amounted to 222 hours per year in early 2011 – well below the average of 385 hours for other LAC region countries.

[21] Tax administrations are generally organized by type of tax or by function. Tax-type organizations may have a VAT Dept., a Sales Tax Dept., a Personal Income Tax Dept., and a Corporate Income Tax Dept. Tax administrations organized along functional lines, however, will have units responsible for registration, tax payer services, return and payment processing, collections, audit, and objections and appeals in addition to support units responsible for Human Resources, Information Technology, Corporate Planning, Budgeting, Performance Monitoring and Evaluation and Internal Audit. All or most domestic taxes will be administered within these functional units.

ANNEX 1: Nicaragua's Collecting Taxes Indicators

Total Tax Revenue	TAXY
	Tax Revenue as % of GDP
Nicaragua	18.0
Latin America and the Caribbean[1]	20.3
Low-Middle-Income Economies[2]	19.5
World	19.8

Company Income Tax	CITR	CITY	CITPROD
	Company Tax Rate	Revenue as % GDP	Revenue Productivity
Nicaragua	30.00	N/A	N/A
Latin America and the Caribbean[1]	28.69	3.86	0.14
Low-Middle-Income Economies[2]	24.68	3.42	0.14
World	25.32	3.33	0.14

Income Taxes on People	PITMINR	PITMINL	PITMAXR	PITMAXL
	Minimum Tax Rate	Minimum Income Level (Multiples of GDPpc)	Maximum Tax Rate	Maximum Income Level (Multiple of GDPpc)
Nicaragua	10.00	2.56	30.00	25.59
Latin America and the Caribbean[1]	13.49	1.81	29.22	8.53
Low-Middle-Income Economies[2]	11.35	1.28	26.76	10.36
World	11.69	0.86	29.63	9.78

Income Taxes on People	PITY	PITPROD	SSR	WEDGE
	Revenue as % GDP	Revenue Productivity	Mandatory Combined Social Contribution Rates	Combined Rate of Personal and Labors Taxation
Nicaragua	0.60	0.02	21.50	21.50
Latin America and the Caribbean[1]	2.10	0.07	16.74	18.12
Low-Middle-Income Economies[2]	2.48	0.11	16.87	19.98
World	3.36	0.13	16.16	20.61

Value Added Tax	VATR	VATY	VATGCR	VATPROD	THRESHOLD
	VAT rate	Revenue as % GDP	Gross Compliance Ratio	Revenue Productivity	Mandatory registration/ filing (annual turnover in USD)
Nicaragua	15.00	7.40	68.10	0.49	N/A
Latin America and the Caribbean[1]	14.40	6.35	66.05	0.45	24,218.24
Low-Middle-Income Economies[2]	14.90	7.27	68.53	0.47	41,954.80
World	15.67	6.33	63.11	0.41	40,552.18

Tax Administration	Tax Staff	Payer to Staff	Function	LTU	Customs
	Tax staff per 1000 population	Number of tax payers per tax staff	Functional Organization	Large Taxpayer Unit	Customs and Tax Administration Combined
Nicaragua	N/A	N/A	1.00	1.00	0.00
Latin America and the Caribbean[1]	0.44	389	0.82	0.81	0.31
Low-Middle-Income Economies[2]	0.48	260	0.93	0.88	0.31
World	0.76	437	0.89	0.85	0.29

Footnotes:

1. LAC countries include: Anguilla, Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay and Venezuela.
2. Low-Middle-Income Countries include: Dominican Republic, Ecuador, Egypt, Arab Rep., El Salvador, Fiji, Georgia, Guatemala, Guyana, Honduras, Indonesia, Iran, Islamic Rep., Iraq, Jamaica, Jordan, Kiribati, Kosovo, Lesotho, Macedonia, FYR, Maldives, Marshall Islands, Micronesia, Moldova, Morocco, Namibia, Nicaragua, Paraguay, Peru, Philippines, Samoa (Western), Sri Lanka, Suriname, Swaziland, Syrian Arab Republic, Thailand, Tonga, Tunisia, Turkmenistan, Ukraine and Vanuatu.

ANNEX 2: Nicaragua Tax Highlights

Nicaragua Highlights

Currency: Nicaraguan Cordoba Oro (NIO)

Foreign exchange control: There are no foreign exchange controls, and no restrictions on the import or export of capital. Repatriation payments may be made in any currency. Both residents and nonresidents may hold bank accounts in any authorised currency.

Accounting principles/financial statements: IFRS/IAS. Financial statement must be prepared annually.

Principal business entities: These are the public and private limited liability company, partnership, sole proprietorship and branch of a foreign corporation.

Corporate taxation:

Residence – A corporation is resident if it is incorporated in Nicaragua, has its place of effective management in Nicaragua or has activities in Nicaragua and is owned mainly by Nicaraguan residents.

Basis – Residents and nonresidents are taxed only on Nicaraguan-source income. Branches are taxed in the same manner as subsidiaries.

Taxable income – Corporate tax is imposed on a corporation's profits, which consist of business/trading income, passive income and capital gains. Normal business expenses may be deducted in computing taxable income.

Taxation of dividends – Dividends are taxed at a rate of 10% upon distribution to shareholders (both legal entities and individuals).

Capital gains – Capital gains are treated as ordinary income.

Losses – Losses may be carried forward for 3 years. The carryback of losses is not permitted.

Rate – 30%

Surtax – No

Alternative minimum tax – An AMT is imposed at a rate of 1% on the value of a taxpayer's gross income.

Foreign tax credit – No

Participation exemption – No

Holding company regime – No

Incentives – Reduced tax rates are available to companies operating in the tourism and energy sectors.

Withholding tax:

Dividends – Dividends paid to a resident or nonresident are subject to a 10% withholding tax.

Interest – Interest paid to a nonresident or non-financial institution is subject to a 22.5% withholding tax.

Royalties – A 21% withholding tax applies to patent royalties paid to a nonresident.

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No

Payroll tax – Payroll tax must be withheld at progressive rates, ranging from 10% to 30%.

Real property tax – The municipalities levy a 1% tax on the value of real estate.

Social security – A company is required to contribute 16% of the gross salary of an employee to social security.

Stamp duty – Stamp duty is levied on certain types of documents issued in Nicaragua or abroad that produce effects in Nicaragua. The amount varies depending on the transaction.

Transfer tax – No

Other – A special consumption tax is levied at a rate of 9%.

Anti-avoidance rules:

Transfer pricing – No

Thin capitalisation – No

Controlled foreign companies – No

Other – No

Disclosure requirements – No

Administration and compliance:

Tax year – The standard tax year is 1 July to 30 June. Alternatively, a taxpayer may request permission to adopt 1 of the following tax periods: April-March, October-September or January-December.

Consolidated returns – Consolidated returns are not permitted; each company must file a separate return.

Filing requirements – The tax return must be filed at the latest within 3 months after the company's year end.

Penalties – Penalties apply for late filing, failure to file or for engaging in tax avoidance/evasion.

Rulings – A taxpayer may request a ruling on the tax consequences of a particular transaction affecting the applicant.

Personal taxation:

Basis – Residents generally are taxed on Nicaraguan-source income, such as earnings from investments in Nicaragua that exceed NIO 75,000, Nicaraguan-source employment and trading income. Nonresidents are taxed only on Nicaraguan-source income.

Residence – An individual that intends to reside indefinitely in Nicaragua is resident for tax purposes.

Filing status – A married couple living together may elect for a joint or separate assessment.

Taxable income – Income is taxed under a schedular system. Income derived from gainful employment, including benefits, is taxable. Individuals who carry on a trade or profession are generally taxed in the same manner as corporations. Investment income in the form of dividends is subject to tax at source according to a progressive rate schedule.

Capital gains – Capital gains are taxed according to a progressive rate schedule.

Deductions and allowances – No personal allowances are granted

Rates – The rates for a resident individual are progressive up to 30%. The rate is 20% for a nonresident individual deriving Nicaraguan-source income.

Other taxes on individuals:

Capital duty – No

Stamp duty – Stamp duty is levied on certain types of documents issued in Nicaragua or abroad that produce effects in Nicaragua. The amount varies depending on the transaction.

Capital acquisitions tax – No

Real property tax – The municipal authorities levy a real property tax on the occupation of real property.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – A company is required to contribute 16% of the gross salary of an employee to social security.

Administration and compliance:

Tax year – The standard tax year is 1 July to 30 June.

Filing and payment – Individuals with income in excess of NIO 75,000 must file an income tax return. No return is required where the taxpayer's sole source of income is employment income and the employer has withheld tax.

Penalties – Penalties apply for late filing, failure to file or for engaging in tax avoidance/evasion.

Value added tax:

Taxable transactions – VAT is levied on the sale of goods and the provision of services.

Rates – The standard rate is 15%.

Registration – All traders carrying out activities in Nicaragua must be registered.

Filing and payment – The VAT return must be filed in the month following the tax period, and any VAT due must be paid at that time. Taxpayers falling within the scope of the large taxpayer regime are subject to different rules; such taxpayers must file a VAT return every 15 days.

Source of tax law: Law No. 562, Tributary Code of the Republic of Nicaragua; Law No. 453 and amendments thereto, Tax Equity Law.

Tax treaties: Nicaragua does not have any income tax treaties.

Tax authorities: *Dirección General de Ingresos* (Internal Revenue Service)

International organisations: None

Paraguay

Summary and Conclusion

- Paraguay is an example of a country that has significantly reformed its revenue policy and administration over the last decade by reducing the number of taxes, implementing a low uniform statutory rate of 10 percent for PIT, CIT and VAT, and strengthening the tax administration.
- As a result of the reforms, the tax system is biased to indirect taxes relative to comparator countries, particularly since the personal income tax is in abeyance by congress.
- Nevertheless, Paraguay's level of revenue mobilization is broadly in line with its capacity given its economic, social, institutional and demographic countries.
- Over the 2001 to 2010 period, Paraguay's tax revenue increased by 2.7 percent of GDP, led by a ambitious State reform program to address public sector weaknesses including improving tax collection.
- In regards to tax rates and revenue productivity, Paraguay holds a unique position in relation to its comparator country averages. CIT and VAT rates are well below the income group, regional and world average, however, the respective productivity measures are above average.
- Recent comparative data suggests that Paraguay's revenue effort from VAT is slightly below that of regional and income group comparator countries.
- Revenue effort from income tax is not available as Paraguay has postponed the implementation of the personal income tax, which was passed into law in the 2004 reform.
- Paraguay's corporate taxation rates are well below the world average rates and the regional comparator countries.

- Two areas for further investigation are proposed:
    - An examination to bring Paraguay's tax ratio in line with peer countries by focusing on broadening tax bases through VAT and Excises (eliminating widespread exemptions), introducing taxation on agriculture, and implementing the personal income tax.
    - An examination of the widespread corruption in the country, focusing on the business practices and procedures that increase incidence of corruption and options for mitigating exploitation.

Major Developments and Features of Current Tax System

Evolution of Revenue

Over the period 2001 to 2010, Paraguay's total tax revenue increased by 2.7 percent of GDP, primarily through increasing tax on goods and services as the government implemented comprehensive tax reform in the mid-2000's creating a new legal framework for taxation in country.

- Income tax revenue effort increased 0.8 percent of GDP over the period.
- Revenue effort from taxes on goods and services increased by 2.4 percent of GDP.
- Revenue effort from taxes on international trade declined slightly by 0.1 percent of GDP.

Paraguay Government Current Revenue
(% of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Taxes on Income & Profits	1.7%	2.0%	1.7%	2.1%	2.1%	1.8%	2.0%	2.1%	3.1%	2.5%
Taxes on Goods and Services	6.7%	6.2%	6.4%	7.1%	7.4%	7.5%	7.9%	8.0%	8.4%	9.1%
Taxes on International Trade	1.9%	1.7%	1.9%	2.2%	1.8%	1.8%	1.4%	1.4%	1.4%	1.8%
Other Taxes	0.4%	0.2%	0.3%	0.5%	0.6%	0.9%	0.2%	0.2%	0.1%	0.1%
Total Tax Revenue	**10.8%**	**10.0%**	**10.3%**	**11.9%**	**11.8%**	**12.0%**	**11.4%**	**11.8%**	**13.0%**	**13.5%**

Source: IMF GFS Database, World Bank

Summary of Reforms

Paraguay's current tax system was established in 1991. In 2004, the system was simplified by reducing the number of taxes from approximately 150 to 9, rearranging tax legislation, and introducing a value added tax.

Compared to other Latin American countries, the structure of the system is not notably different (except for the yet to be implemented personal income tax). Central Government revenues have increased consistently over the decade due to a heavy reliance on indirect taxation and high productivity of the taxes.

A summary of reforms undertaken to date include:

- In 2004, a widespread Fiscal Adjustment Law which broadened the VAT tax base by introducing a tax on services, rentals, transports and reducing exemptions on basic goods and oil products.
- The 2004 reform also adjusted the corporate income tax rates, effectively lowering the rates from 30 percent in 2004 to 20 percent in 2005 to the current rate of 10 percent by 2006.
- Several special tax regimes were abolished through the reform, such as the elimination of a five-year tax holiday on first time investment and elimination of dividend, profit and bond exemptions.
- A series of adjustments to the 1991 fiscal reform laws such as: the introduction of a Small Business tax in 2004 which replaced the Single Tax Law established in 1991 for individual entrepreneurs; and the establishment of new rates to the Single Stage Excise tax on beverages, alcohol, oil and tobacco.
- Introduction of a 5 percent tax on luxury goods and 10 percent tax on appliances and electronics.
- The 2004 reforms also introduced a new personal income tax. The passing of this law spurred major protests, and the implementation was postponed by congress, which will reconsider implementation in 2013.
- Following the 2004 reform, the tax administration focused on modernizing procedures and operations, improving control over goods and revenue collection, and addressing key human resource issues.

Tax System Profile (2008-09)

The attached tables provide a high-level profile of Paraguay's tax system as of fiscal year 2008/09 and compare it with the Latin America and Caribbean Region (LAC), other low-middle-income countries, and the rest of the world. The data in this section is from USAID's Collecting Taxes database. The most recent year for comparative data is the 2008/09 fiscal year. Country specific data and reforms through 2010 are referenced in the previous sections.

Paraguay's "overall tax effort"—the ratio of actual tax collections to its estimated maximum revenue capacity given its economic, social, institutional and demographic characteristics—is 64.5 percent, which is slightly above the lower-middle-income countries average of 63.2 percent. [22]

Revenue Effort

- "Revenue Effort" provides a measure of the amount of revenue from income and sales taxes that a government collects as a share of GDP.
- Paraguay's overall tax revenue effort is 13.5 percent of GDP - about 6 percentage points below that of regional and income group comparator countries.
- Personal income tax revenue effort is not available, as Paraguay has yet to implement its personal income tax regime.
- Corporate income tax revenue effort, at 2.0 percent of GDP, is well below the income group, world and LAC regional averages of 3.3 to 3.9 percent.
- The revenue effort from VAT, at 5.7 percent, is slightly below the LAC regional and world averages, and moderately below that of the income group average of 7.27 percent.

Tax Structure

- ***Paraguay's tax structure relies more heavily on indirect taxation than income taxes when compared to regional, income group, and world standards in large part because the PIT is in abeyance. Moreover, CIT, PIT and VAT statutory rates are all below the comparative averages.***
- Paraguay's corporate income tax rate, at 10 percent, is significantly below the income group world and LAC regional averages, which are in the 25 percent range.
- Although not applied, the statutory personal income tax rate, at 10 percent, is significantly below the income group world and LAC regional averages, which are in the 25 to 30 percent range.
- The VAT rate, at 10 percent, is moderately below the regional, income group and world averages, which are in the 14.5 to 16 percent range.
- The tax wedge on labor income, at 23 percent, is slightly above the regional, income group, and world averages of 19-20 percent.

Revenue Productivity

- "Revenue productivity" is measured as the portion of GDP that is mobilized for each point of tax rate.
- Corporate income tax productivity, at 0.20 percent of GDP of revenue for each percentage point of tax rate, is modestly above with the income group and world averages, at 0.14 percent.
    - ***While Paraguay has the lowest corporate tax rate in the region at 10 percent, the productivity of its corporate taxes is strong given its low rate.***
- Personal income tax productivity is not available, as Paraguay has yet to implement a personal income tax regime. Paraguay is one of the few countries in the world without a personal income tax.

[22] See Revenue Mobilization in Developing Countries, SM//11/21 (International Monetary Fund, 2011, pp.60-63).

- VAT productivity, at 0.57 percent, is above the regional, income group and world averages. Similarly, the VAT gross compliance ratio is slightly above the averages.
  - ***Paraguay's VAT rate is the lowest in the region but its productivity is among the highest in South America.***

Tax Administration Structure and Efficiency

- The Subsecretaria de Estado de Tributacion (SET) is responsible for administration of taxes in Paraguay. SET is a division of the Ministry of Finance. Customs Duties are collected by the General Customs Service.
- Tax administration in Paraguay is organized along functional lines[23] and segmentation of taxpayers into regional departments, including a Large Tax Payer Unit (LTU).

Taxpayer Burden and Corruption Evidence

- Enterprise surveys by WB indicate that the percentage of Paraguayan business taxpayers "expected to give gifts in meeting with tax officials" is 14.60 percent, which is above the LAC regional average of 6.23 percent though slightly below the world average of 16.63 percent.

- The WB Doing Business survey estimates that the average time required for Paying Taxes by a medium-sized company in Paraguay amounted to 387 hours per year in early 2011 – which is in line with the average of 385 hours for other LAC region countries. Prior to 2010, this figure was 328 hours.

[23] Tax administrations are generally organized by type of tax or by function. Tax-type organizations may have a VAT Dept., a Sales Tax Dept., a Personal Income Tax Dept., and a Corporate Income Tax Dept. Tax administrations organized along functional lines, however, will have units responsible for registration, tax payer services, return and payment processing, collections, audit, and objections and appeals in addition to support units responsible for Human Resources, Information Technology, Corporate Planning, Budgeting, Performance Monitoring and Evaluation and Internal Audit. All or most domestic taxes will be administered within these functional units.

ANNEX 1: Paraguay's Collecting Taxes Indicators

Total Tax Revenue	TAXY
	Tax Revenue as % of GDP
Paraguay	13.5
Latin America and the Caribbean[1]	20.3
Low-Middle-Income Economies[2]	19.5
World	19.8

Company Income Tax	CITR	CITY	CITPROD
	Tax Rate	Revenue as % GDP	Revenue Productivity
Paraguay	10.00	2.00	0.02
Latin America and the Caribbean[1]	28.69	3.86	0.14
Low-Middle-Income Economies[2]	24.68	3.42	0.14
World	25.32	3.33	0.14

Income Taxes on People	PITMINR	PITMINL	PITMAXR	PITMAXL
	Minimum Tax Rate	Minimum Income Level (Multiples of GDPpc)	Maximum Tax Rate	Maximum Income Level (Multiple of GDPpc)
Paraguay[24]	8.00	11.02	10.00	13.78
Latin America and the Caribbean[1]	13.49	1.81	29.22	8.53
Low-Middle-Income Economies[2]	11.35	1.28	26.76	10.36

[24] Statutory Personal Income tax rate, not applied

World	11.69	0.86	29.63	9.78

Income Taxes on People	PITY	PITPROD	SSR	WEDGE
	Revenue as % GDP	Revenue Productivity	Mandatory Combined Social Contribution Rates	Combined Rate of Personal and Labors Taxation
Paraguay	N/A	N/A	23.00	23.00
Latin America and the Caribbean[1]	2.10	0.07	16.74	18.12
Low-Middle-Income Economies[2]	2.48	0.11	16.87	19.98
World	3.36	0.13	16.16	20.61

Value Added Tax	VATR	VATY	VATGCR	VATPROD	THRESHOLD
	VAT rate	Revenue as % GDP	Gross Compliance Ratio	Revenue Productivity	Mandatory registration/ filing (annual turnover in USD)
Paraguay	10.00	5.70	76.00	0.57	N/A
Latin America and the Caribbean[1]	14.40	6.35	66.05	0.45	24,218.24
Low-Middle-Income Economies[2]	14.90	7.27	68.53	0.47	41,954.80
World	15.67	6.33	63.11	0.41	40,552.18

Tax Administration	Tax Staff	Payer to Staff	Function	LTU	Customs
	Tax staff per 1000 population	Number of tax payers per tax staff	Functional Organization	Large Taxpayer Unit	Customs and Tax Administration Combined
Paraguay	N/A	N/A	1.00	1.00	N/A
Latin America and the Caribbean[1]	0.44	389	0.82	0.81	0.31
Low-Middle-Income Economies[2]	0.48	260	0.93	0.88	0.31
World	0.76	437	0.89	0.85	0.29

Footnotes:

1. LAC countries include: Anguilla, Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay and Venezuela.
2. Low-Middle-Income Countries include: Dominican Republic, Ecuador, Egypt, Arab Rep., El Salvador, Fiji, Georgia, Guatemala, Guyana, Honduras, Indonesia, Iran, Islamic Rep., Iraq, Jamaica, Jordan, Kiribati, Kosovo, Lesotho, Macedonia, FYR, Maldives, Marshall Islands, Micronesia, Moldova, Morocco, Namibia, Nicaragua, Paraguay, Peru, Philippines, Samoa (Western), Sri Lanka, Suriname, Swaziland, Syrian Arab Republic, Thailand, Tonga, Tunisia, Turkmenistan, Ukraine and Vanuatu.

Paraguay Highlights

Currency: Paraguayan Guaraní (PYG)

Foreign exchange control: No

Accounting principles/financial statements: Paraguayan GAAP, based on IAS/IFRS. Financial statements must be prepared annually.

Principal business entities: These are the corporation, limited liability company, partnership and branch of a foreign corporation.

Corporate taxation:

Residence – Residence is determined in order of priority according to: (1) the place of a company's management or direction; (2) the place where a company's main activities are carried out; and (3) the location of a company's representative address.

Basis – Corporate income tax is levied on a territorial basis. Tax is due, with some exceptions, on business income derived from activities performed, property situated or economic rights used, in Paraguay, regardless of the domicile, residence or nationality of those participating in the operations or where contracts are concluded.

Taxable income – Taxable income is the difference between total earnings from commercial, manufacturing and service activities less expenses incurred to derive the income.

Taxation of dividends – Dividend distributions are subject to a 5% corporate income tax.

Capital gains – Capital gains derived from the sale of fixed assets, immovable property and securities are taxed as ordinary income at the standard corporate rate.

Losses – The carryforward and carryback of losses is not permitted.

Rate – 10%

Surtax – No

Alternative minimum tax – No

Foreign tax credit – No

Participation exemption – No

Holding company regime – No

Incentives – Companies operating in free zones benefit from reduced taxation. A maquiladora regime also exists.

Withholding tax:

Dividends – Dividends distributed to a nonresident are subject to a 15% withholding tax.

Interest – Interest paid to a nonresident is subject to a 30% withholding tax, which is imposed on 50% of the payment, resulting in an effective rate of 15%. The rate on payments to a financial institution is 6%.

Royalties – Royalties paid to a nonresident are subject to a 30% withholding tax imposed on 50% of the payment, resulting in an effective rate of 15%.

Branch remittance tax – Profits remitted to a head office are subject to a 20% withholding tax, in addition to the 10% corporate tax, resulting in an effective rate of 30%.

Other taxes on corporations:

Capital duty – There is no capital duty per se, but certain fees (e.g. registration and publication) are levied on the formation of a company.

Payroll tax – No

Real property tax – Real property is subject to an annual tax collected by the local authorities at a rate of 1% (0.5% for certain rural property) of the cadastral value. Various real estate surtaxes also apply for specific types of property, and there is a 0.3% tax on the transfer of immovable property (calculated on the higher of the transaction price or the cadastral value of the property).

Social security – The employer's contribution to social security is 16.5% of an employee's total salary (including bonuses, premiums, etc.). The employer also must withhold the employee portion (9%).

Stamp duty – No

Transfer tax – No

Other – Some small and agricultural businesses fall under special regimes other than the corporate income tax regime.

Anti-avoidance rules:

Transfer pricing – No

Thin capitalisation – No

Controlled foreign companies – No

Other – No

Disclosure requirements – No

Administration and compliance:

Tax year – The tax year generally coincides with the calendar year, but certain industries are required to use specific tax years.

Consolidated returns – Consolidated returns are not permitted; each company must file a separate return.

Filing requirements – A company must make 4 advance payments based on the previous tax year's liability. A return and balance sheet, at a minimum, must be filed for corporate income tax purposes. In general, the return is due within 4 months of the end of the taxpayer's tax year, but the taxpayer's identification number determines the exact due date.

Penalties – Penalties range from 4% to 14% of the total tax due, plus monthly interest at 1.5%.

Rulings – A taxpayer may request a ruling from the tax authorities on the tax consequences of a proposed transaction.

Personal taxation:

Basis – Tax is levied on Paraguayan-source (net) income from services and certain investments, provided the taxpayer's income exceeds the monthly minimum wage by a certain amount (i.e.108 times for 2011, to be reduced by 12 per year until the factor reaches 36 in 2017). The personal income tax, however, is suspended until 1 January 2013.

Residence – An individual is resident in Paraguay if he/she is in the country for more than 120 days in a calendar year or in the previous 12-month period.

Filing status – Joint filing is not permitted. Each person is subject to tax if his/her individual income exceeds the relevant threshold.

Taxable income – Income from services and certain investments are taxable. These items include: personal services income; benefits in kind; dividends, profits and share price surplus (50% if derived from a resident company/enterprise subject to corporate or agricultural income tax and 100% if the resident company/enterprise is not subject to corporate or agriculture income tax); certain capital gains (see under “Capital gains”); and interest, commissions and other income that has not been subject to the corporate or agriculture income tax. A nonresident that derives business or professional income in Paraguay is subject to withholding tax at an effective rate of 15% (30% of 50%) on the gross amount.

Capital gains – Capital gains from the disposal of real property located in Paraguay and shares of Paraguayan companies are subject to individual income tax if they are occasional; otherwise, the gains are subject to the corporate, agricultural business tax or small business tax. Capital gains derived by a nonresident are subject to tax at an effective rate of 15% (30% of 50%) on the gross amount.

Deductions and allowances – If directly related to the taxable activity generating domestic-source income, both domestic and foreign-source expenses are deductible. The taxpayer and his/her dependents are also entitled to personal deductions (education, health, clothing, recreation, charitable, etc.). A deduction of 15% of annual gross income is allowed if invested in certain entities where the taxpayer does not contribute to the social security system.

Rates – The rate is 10% if the income exceeds 120 times the minimum wage; otherwise, the rate is 8%.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – Real property is subject to an annual tax collected by the local authorities at a rate of 1% (0.5% for certain rural property) of the cadastral value. Various real estate surtaxes also apply to specific types of property and there is a 0.3% tax on the transfer of immovable property (calculated on the higher of the transaction price or the cadastral value of the property).

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – The employee contribution is 9% (3% applicable to pension and retirement), based on total remuneration (including bonuses, premiums, etc.) and is withheld by the employer.

Administration and compliance:

Tax year – Calendar year

Filing and payment – The annual income tax liability must be paid when the annual tax return is filed (i.e. in June of the year following the tax year).

Penalties – Penalties range from 4% to 14% of total tax due, plus monthly interest at 1.5%.

Value added tax:

Taxable transactions – VAT is levied on the supply of goods and services, and the import of taxable goods and services.

Rates – The standard rate is 10%, with a lower 5% rate applying to supplies of basic foodstuffs, pharmaceutical products, interest and commissions on loans, and the transfer of the right to use goods or immovable property. Exports are zero-rated. Exemptions include raw farm products, some fuels, foreign currency, books and newspapers.

Registration – VAT registration is compulsory for all companies and unincorporated businesses whose taxable turnover exceeds a certain amount.

Filing and payment – VAT filing and payments are due monthly, with the due date determined according to the taxpayer’s registration number.

Source of tax law: Law No. 125/91 on Tax Reform (including all fiscal taxes), Law No. 2421/04 of Administrative Reordering and Fiscal Adequacy

Tax treaties: Paraguay has 1 tax treaty.

Tax authorities: *Subsecretaría de Estado de Tributación*

International organisations: Union of South American Nations, Mercosur, OAS (Organization of American States)

Peru

Summary and Conclusion

- Peru entered the millennium following a decade of comprehensive tax policy and administration reforms. Its efforts have been outstanding by Latin American standards and have paved the way for successful improvements in revenue mobilization over the last decade.
- Nevertheless, Peru's level of revenue effort is well below its capacity given its economic, social, institutional and demographic characteristics.
- Over the 2001 to 2010 period, Peru's tax revenue increased by 2.6 percent of GDP, largely due to the country's strong economic growth and improved tax policy and administration.
- Performance of the three main tax handles in total is broadly in line with comparator country averages, indicating that excises and other tax revenue could be a good source of revenue mobilization.
- Recent comparative data suggests that Peru's revenue effort from VAT is moderately above comparator countries in terms of regional and income group.
- Income tax revenue effort is below that of regional and income group comparator countries, on average, identifying an opportunity to improve revenue productivity in this area.
- Continued focus on improving administration and tax policy, particularly for personal taxation, could contribute a modest 0.3 percent increase of GDP in revenue.
- Peru's corporate and personal income tax rates are above the world average rates and the regional comparator countries.
- The VAT rate is around 4 percentage points above the comparator group countries on average.
- VAT and CIT productivity is broadly in line with comparator group averages, while PIT productivity measures are well below that of comparator country measures.

- Two areas for further investigation are proposed:
    - An examination of methods that will improve the effectiveness of the collection of tax payments with an emphasis on tax arrears and establishing a framework to regulate tax exemptions.
    - An examination of broader strategies to expand the tax base and modernize the tax administration, such as developing programs to facilitate electronic tax reporting and payment, as well as increasing revenue from excises and other tax revenue.

Major Developments and Features of Current Tax System

Evolution of Revenue

Over the period 2001 to 2010, Peru's tax revenue increased by 2.6 percent of GDP with improved revenue effort from major domestic revenue sources.

- Income tax revenue effort increased 2.9 percent of GDP over the period.
- Revenue effort from taxes on goods and services increased by 1.1 percent of GDP.
- Revenue effort from taxes on international trade decreased modestly by 1.1 percent of GDP.

Peru Government Current Revenue
(% of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Taxes on Income & Profits	3.0%	3.0%	3.7%	3.8%	4.3%	6.1%	6.8%	6.5%	5.3%	5.9%
Taxes on Goods and Services	8.2%	8.4%	8.8%	8.7%	8.6%	8.5%	8.8%	9.5%	8.8%	9.3%
Taxes on International Trade	1.5%	1.2%	1.2%	1.2%	1.2%	0.9%	0.7%	0.5%	0.4%	0.4%
Other Taxes	1.4%	0.9%	0.7%	0.9%	1.2%	1.2%	1.3%	1.3%	1.2%	1.2%
Total Tax Revenue	**12.4%**	**12.2%**	**12.9%**	**13.1%**	**13.7%**	**15.3%**	**15.8%**	**15.9%**	**13.9%**	**15.0%**

Source: Superintendencia Nacional de Administración Tributaria (SUNAT), Peru Central Bank, World Bank GDP

Summary of Reforms

The Peruvian tax system stands as a model case study for drastic comprehensive reform with proven success in Latin America. During the 1990's, the tax authority (SUNAT) underwent several changes in tax policy, updates to the tax code, and a harmonization process which helped overhaul the tax collection system. Tax revenue effort increased from 5 percent of GDP in 1990 to 12 percent in 2001, then to 15 percent in 2010.

Over the recent decade, Peru has benefitted significantly from strong economic growth and the rise in banking, manufacturing, and mining sectors, which accounted for a considerable share of collected taxes. As such, tax reform has included frameworks to increase transparency, increase VAT, create enhancements to the taxpayer registration system, reduce taxes in certain areas, and simplify procedures.

A number of reforms to the tax system over the last decade include:

- Establishing the basic corporate tax of 30% in 2003.
- In 2004, introducing a new royalty tax on the sales of mining companies, set at progressive rates of 1-3%, depending on income, regardless of profit.
- In addition, manufacturing and agro-industrial companies must pay a 2% levy on taxable income to support research and development.
- In 2004, the Single Ordered Text of Income Tax Law consolidated several of the changes to the tax law over the 1990-2000 period.
- In 2006, a new Simplified Single Regimen (RUS) was applied to small business owners which allows taxpayers to contribute on a monthly basis.
- In an effort to promote growth, three new laws were passed in 2008-09 which allow for accelerated depreciation on renewable energy products, petrochemical plants, and new buildings.
- In 2010, a new 5% flat tax was introduced to standardize capital gains taxes for local and foreign investors.
- Excise taxes have been stagnant over the period, except for fuels, which have varied dramatically since 2008 due to increases in petroleum prices.
- Most recently, the VAT rate was decreased one percentage point to equal 18 percent.

Tax System Profile (2008-09)

The attached tables provide a high-level profile of Peru's tax system as of fiscal year 2008/09 and compare it with the Latin America and Caribbean Region (LAC), other low-middle-income countries, and the rest of the world. The data in this section is from USAID's Collecting Taxes database. The most recent year for comparative data is the 2008/09 fiscal year. Country specific data and reforms through 2010 are referenced in the previous sections.

Peru's "overall tax effort"—the ratio of actual tax collections to its estimated maximum revenue capacity given its economic, social, institutional and demographic characteristics—is 55.3 percent, which is well below its comparator group average of 77.2 percent. [25]

Revenue Effort

- "Revenue Effort" provides a measure of the amount of revenue from income and sales taxes that a government collects as a share of GDP.
- Peru's overall tax revenue effort is 15 percent of GDP, about 4 to 5 percentage points below that of regional and income group comparator countries.
- Peru's revenue effort from personal income tax, at 1.10 percent, is below that of the LAC regional average and the income group averages, which are in the 2.1 to 2.5 percent range, and significantly below the world average of 3.36 percent.
- Corporate income tax revenue effort, at 4.0 percent of GDP, is slightly above the income group and world averages and similar to the LAC regional average of 3.9 percent.
- The revenue effort from VAT, at 8.5 percent, is well above the LAC regional and world averages, and modestly above that of the income group average of 7.27 percent.

Tax Structure

- Peru's corporate income tax rate, at 30 percent, is well above the income group and world averages and modestly above the regional average which is 28.7 percent.
- The maximum PIT rate in Peru, at 30 percent, is similar to the regional and world averages, and modestly above the income group average.
- The minimum PIT rate in Peru, at 15 percent, is well above the income group and world averages, and modestly above the region average of 13.5 percent.
- The VAT rate, at 19 percent, is well above regional, income group and world averages, which are in the 14.5 to 16 percent range.
- The tax wedge on labor income is comparable to the regional, income group, and world averages of 19-20 percent.

Revenue Productivity

- "Revenue productivity" is measured as the portion of GDP that is mobilized for each point of tax rate.
- Corporate income tax productivity, at 0.14 percent of GDP of revenue for each percentage point of tax rate, is exactly in line with the income group and world averages, at 0.14 percent.
- Personal income tax productivity, at 0.04 percent, is moderately below the regional average of 0.07, and significantly below the income group and world averages, which are in the 0.11 to 0.13 percent range.
    - ***Improving the revenue productivity for personal taxes in line with the income group average could contribute an additional 0.3 percent of GDP in revenue.***

[25] See Revenue Mobilization in Developing Countries, SM//11/21 (International Monetary Fund, 2011, pp.60-63).

- VAT productivity, at 0.45 percent, is in line with regional, income group and world averages, similarly the VAT gross compliance ratio is slightly above the averages.

Tax Administration Structure and Efficiency

- The Superintendencia Nacional de Administracion Tributaria (SUNAT) is responsible for administration of taxes in Peru. The agency is a decentralized government institution of the Ministry of Finance with legal authority under public law and independence.
- Tax administration in Peru is organized along functional lines[26] and segmentation of taxpayers into regional departments, including a Large Taxpayer Unit (LTU).

Taxpayer Burden and Corruption Evidence

- Enterprise surveys by WB indicate that the percentage of Peru business taxpayers “expected to give gifts in meeting with tax officials” is 8.42 percent, which is slightly above the LAC regional average of 6.23 percent however below the world average of 16.63 percent.

- The WB Doing Business survey estimates that the average time required for Paying Taxes by a medium-sized company in Peru amounted to 309 hours per year in early 2011 – which is slightly lower than the average of 385 hours for other LAC region countries. Prior to 2009, this figure in Peru was 424 hours.

[26] Tax administrations are generally organized by type of tax or by function. Tax-type organizations may have a VAT Dept., a Sales Tax Dept., a Personal Income Tax Dept., and a Corporate Income Tax Dept. Tax administrations organized along functional lines, however, will have units responsible for registration, tax payer services, return and payment processing, collections, audit, and objections and appeals in addition to support units responsible for Human Resources, Information Technology, Corporate Planning, Budgeting, Performance Monitoring and Evaluation and Internal Audit. All or most domestic taxes will be administered within these functional units.

ANNEX 1: Peru's Collecting Taxes Indicators

Total Tax Revenue	TAXY
	Tax Revenue as % of GDP
Peru	15.0
Latin America and the Caribbean[1]	20.3
Low-Middle-Income Economies[2]	19.5
World	19.8

Company Income Tax	CITR	CITY	CITPROD
	Tax Rate	Revenue as % GDP	Revenue Productivity
Peru	30.00	4.00	0.14
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Income Taxes on People	PITMINR	PITMINL	PITMAXR	PITMAXL
	Minimum Tax Rate	Minimum Income Level (Multiples of GDPpc)	Maximum Tax Rate	Maximum Income Level (Multiple of GDPpc)
Peru	15.00	1.88	30.00	16.41
Latin America and the Caribbean[1]	13.49	1.81	29.22	8.53
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World	11.69	0.86	29.63	9.78

Income Taxes on People	PITY	PITPROD	SSR	WEDGE
	Revenue as % GDP	Revenue Productivity	Mandatory Combined Social Contribution Rates	Combined Rate of Personal and Labors Taxation
Peru	1.10	0.04	19.63	19.60
Latin America and the Caribbean[1]	2.10	0.07	16.74	18.12
Low-Middle-Income Economies[2]	2.48	0.11	16.87	19.98
World	3.36	0.13	16.16	20.61

Value Added Tax	VATR	VATY	VATGCR	VATPROD	THRESHOLD
	VAT rate	Revenue as % GDP	Gross Compliance Ratio	Revenue Productivity	Mandatory registration/ filing (annual turnover in USD)
Peru	19.00	8.50	70.80	0.45	N/A
Latin America and the Caribbean[1]	14.40	6.35	66.05	0.45	24,218.24
Low-Middle-Income Economies[2]	14.90	7.27	68.53	0.47	41,954.80
World	15.67	6.33	63.11	0.41	40,552.18

Tax Administration	Tax Staff	Payer to Staff	Function	LTU	Customs
	Tax staff per 1000 population	Number of tax payers per tax staff	Functional Organization	Large Taxpayer Unit	Customs and Tax Administration Combined
Peru	0.26	531	1.00	1.00	1.00
Latin America and the Caribbean[1]	0.44	389	0.82	0.81	0.31
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World	0.76	437	0.89	0.85	0.29

Footnotes:

1. LAC countries include: Anguilla, Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay and Venezuela.
2. Low-Middle-Income Countries include: Dominican Republic, Ecuador, Egypt, Arab Rep., El Salvador, Fiji, Georgia, Guatemala, Guyana, Honduras, Indonesia, Iran, Islamic Rep., Iraq, Jamaica, Jordan, Kiribati, Kosovo, Lesotho, Macedonia, FYR, Maldives, Marshall Islands, Micronesia, Moldova, Morocco, Namibia, Nicaragua, Paraguay, Peru, Philippines, Samoa (Western), Sri Lanka, Suriname, Swaziland, Syrian Arab Republic, Thailand, Tonga, Tunisia, Turkmenistan, Ukraine and Vanuatu.

ANNEX 2: Peru Tax Highlights

Peru Highlights

Currency: Nuevo Sol (PEN). Peru also uses the "tax unit", a figure set annually by the tax authorities to determine applicable rates and deductions, among other uses.

Foreign exchange control: No restrictions are imposed on the import or export of capital. Funds may be repatriated in any currency, and both residents and nonresidents can hold bank accounts in any currency.

Accounting principles/financial statements: IAS/IFRS. Financial statements must be prepared annually.

Principal business entities: These are the corporation, closed corporation, public corporation, limited liability company and branch of a foreign company.

Corporate taxation:

Residence – An entity is considered domiciled for tax purposes if it is incorporated in Peru.

Basis – Domiciled corporations are taxed on worldwide income. Non-domiciled corporations and branches of foreign entities are taxed only on Peruvian-source income. Foreign-source income derived by residents is subject to corporation tax in the same way as Peruvian-source income, but it is calculated separately. Branches are taxed at the corporation tax rate, plus a remittance tax. Subsidiaries are taxed at the normal corporation tax rate.

Taxable income – Taxable income is comprised of all profits derived by a company, including capital gains. Normal business expenses may be deducted in computing taxable income.

Taxation of dividends – Dividend distributions between resident entities are not taxed. Foreign dividends received by a Peruvian entity are included in taxable income and subject to the normal corporate tax rate, but with a tax credit for foreign tax paid on the dividends. Dividends and other profit distributions, as well as a branch remittance of net profits abroad, are subject to a 4.1% withholding tax when paid to resident and nonresident individuals and nonresident entities.

Capital gains – Capital gains are generally included as income and taxed at the normal corporate rate.

Losses – A taxpayer has the option to carry forward all net operating losses for 4 years or carry the losses forward indefinitely, but only up to 50% of the taxpayer's taxable income of each subsequent year. Loss carryback is not permitted.

Rate – 30%

Surtax – No

Alternative minimum tax – No

Foreign tax credit – A tax credit is available for income tax paid on foreign-source income equal to the actual foreign tax paid or the Peruvian tax liability on the income, whichever is less. Excess credits may not be carried forward.

Participation exemption – No

Holding company regime – No

Incentives – Investors in large mining and oil or gas operations may conclude tax law stability agreements with the government for periods of 10 to 15 years.

Withholding tax:

Dividends – Dividends paid to nonresident entities (companies) and to resident and nonresident individuals are subject to a 4.1% withholding tax.

Interest – Interest payments to a nonresident related party that satisfies certain requirement are subject to a 4.99% withholding tax; otherwise, the rate is 30%.

Royalties – Royalties paid by a Peruvian resident are considered Peruvian-source income and, consequently, subject to a 30% withholding tax.

Branch remittance tax – The remittance of net profits abroad is subject to a 4.1% withholding tax. Branches of foreign companies are subject to the 30% standard rate of corporate income tax, plus the 4.1% tax on the remittance.

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – The municipal authorities levy real estate property tax at progressive tax rates of 0.2%, 0.6% and 1%, depending on the value of the property. The tax is a deductible expense for income tax purposes.

Social security – An employer pays a 9% social security contribution for its employees.

Stamp duty – No

Transfer tax – The transfer of buildings (real estate property) are subject to a 3% transfer tax, with the first 10 tax units being exempt.

Other – A Temporary Net Assets Tax (TNAT) is imposed on the value of total assets exceeding PEN 1 million at a rate of 0.4%. A "Financial Transactions Tax" is imposed primarily on debit and credit transactions with Peruvian bank accounts at a rate of 0.05% before (0.005% from) 1 April 2011.

Anti-avoidance rules:

Transfer pricing – Transactions between related parties or between a Peruvian person and an entity in a tax haven jurisdiction must be carried out at arm's length prices. If the price agreed upon is not arm's length, the tax authorities may adjust the price. Jurisdictions that are deemed to be tax havens are set out in a list issued by the tax authorities. Transfer pricing documentation is required.

Thin capitalisation – Interest paid by resident taxpayers to economically related or associated enterprises may not be deducted if a debt-to-equity ratio of 3:1 is exceeded.

However, the interest is not recharacterised as a dividend.

Controlled foreign companies – No

Other – A transaction that exceeds USD 1,000 must be paid via check or other means of verifiable payment.

Disclosure requirements –No, other than transfer pricing documentation.

Administration and compliance:

Tax year – Calendar year

Consolidated returns – No

Filing requirements – Companies are required to make 9 monthly advance payments of income tax based on a percentage of net assets (TNAT) and 12 payments on account based on monthly taxable income. An annual self-assessment tax return must be filed, and final tax must be paid by the first week in April following the end of the tax year.

Penalties – Penalties apply for late filing or failure to file.

Rulings – No

Personal taxation:

Basis – Residents are taxed on worldwide income and nonresidents are taxed only on Peruvian-source income.

Residence – Peruvian individuals living in the country and foreign individuals who are in Peru for more than 183 calendar days in any 12-month period are deemed to be resident for tax purposes. All individuals who qualify as resident on 1 January are subject to income tax for that fiscal year; any changes in residence status after that date will take effect for the next fiscal year.

Filing status – Spouses can choose which spouse will file the return.

Taxable income – Taxable income is divided into specific categories: labour income (derived from employment), income from independent personal services) and capital income (interest, royalties, capital gains and income from the leasing of assets). Business income earned by an individual is subject to the corporate tax regime.

Capital gains – Capital gains are taxed at a rate of 6.25%. Gains derived by nonresident individuals from the transfer of securities outside the country are taxed at a 30% rate. Transfers in Peru are taxed at a 5% rate. Gains derived by nonresident individuals from the transfer of real property are taxed at a 30% rate.

Deductions and allowances – An individual is allowed a deduction from capital income and labour income.

Rates – Progressive rates apply to employment income according to the following schedule: 15% up to the first 27 tax units, 21% for 27-54 tax units and 30% on the excess. Nonresident individuals are subject to different rates depending on the type of income. Capital gains tax is levied at a flat rate of 6.25%.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – Tax is imposed on the total value of real property owned by a person.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – Only the employer is required to contribute. The employer pays a 9% social security contribution for its employees.

Administration and compliance:

Tax year – Calendar year

Filing and payment – An annual income tax return must be filed within 3 months of the end of the tax year.

Penalties – Penalties apply for late filling or failure to file.

Value added tax:

Taxable transactions – VAT is levied on the sale of goods, the provision and use of services, the first sale of real estate by a contractor and imports.

Rates – 18% (reduced from 19%) effective 1 March 2011.

Registration – Taxpayers are required to keep accounting books (such as purchase and sales books).

Filing and payment – VAT returns must be filed on a monthly basis.

Source of tax law: Income Tax Law, VAT Law

Tax treaties: Peru has 3 bilateral agreements (Canada, Chile, Brazil) and an agreement with the Andean Community (Colombia, Ecuador and Bolivia).

Tax authorities: Tax Administration (SUNAT), Tax Court (Tribunal Fiscal)

International organisations: Andean Community

Appendix A: Glossary

Collecting Taxes Indicators

Overall Tax Effort is the ratio of actual tax collections to a country's estimated maximum revenue capacity given its economic, social, institutional and demographic characteristics.

CITR is the general rate applied for the corporate income tax. In most countries only one corporate income tax is applied to corporate profits. In most countries, business enterprises that are owned by sole proprietors or unincorporated partnerships pay tax under the personal income tax system.

CITY is the level of corporate income tax collections as percentage of GDP.

CITPROD represents how well the corporate income tax does in terms of revenue collection, given the tax rate. CITPROD is the portion of GDP in revenue that is mobilized for each point of CIT rate.

PITMINR is the lowest non-zero positive tax rate applied to the lowest income group in the personal income tax system.

PITMINL is the lowest level of income at which the lowest marginal personal income tax rate (PITMINR) is imposed, expressed as a multiple of per capita GDP.

PITMAXR is the highest tax rate applied under the personal income tax system.

PITMAXL is the lowest level of income at which the top marginal personal income tax rate is imposed, expressed as a multiple of per capita GDP.

PITY is the level of personal income tax collections as percentage of GDP.

PITPROD provides an indication of how well the personal income tax in a country does in terms of producing revenue. PITPROD is the portion of GDP in revenue that is mobilized for each point of the average PIT rate.

SSR is the combined rate for employer and employee social security contributions.

WEDGE is an estimate of the overall taxation of labor income, represented as a percentage of gross salary. It combines social contributions with personal income tax.

VATR is the general rate at which most goods and services are taxed under the value added tax system. Most countries have a variety of reduced rates for certain basic goods, such as basic food stuffs. Also, all countries have a zero rate on exported goods.

VATY is the level of VAT collections as a percentage of GDP.

VATGCR is the VAT gross compliance ratio which is the ratio of potential VAT collections—if all final household consumption had been taxed at the standard rate--to actual VAT collections.

VATPROD is a measure of how well the VAT produces revenue for the government, given the VAT rate. It is the portion of GDP in revenue that is mobilized for each point of VAT rate.

Threshold indicates the amount of annual turnover, in US $ terms above which taxpayers must register for VAT and file regular VAT returns.

Functional Organization is a binary indicator where 1 indicates that the tax administration is organized along functional lines.

Large Taxpayer Unit (LTU) is a binary indicator where 1 indicates that there is a large taxpayers unit.

Customs and Tax Administration Combined is a binary indicator where 1 indicates that revenue is administered jointly by a single customs and tax administration.

Corruption Evidence indicates the percent of firms expected to give gifts or an informal payment in meetings with tax officials.

Taxpayer Burden measures the time taken to prepare, file and pay 3 major types of taxes and contributions: the corporate income tax, value added or sales tax, and labor taxes, including payroll taxes and social contributions